BANKING

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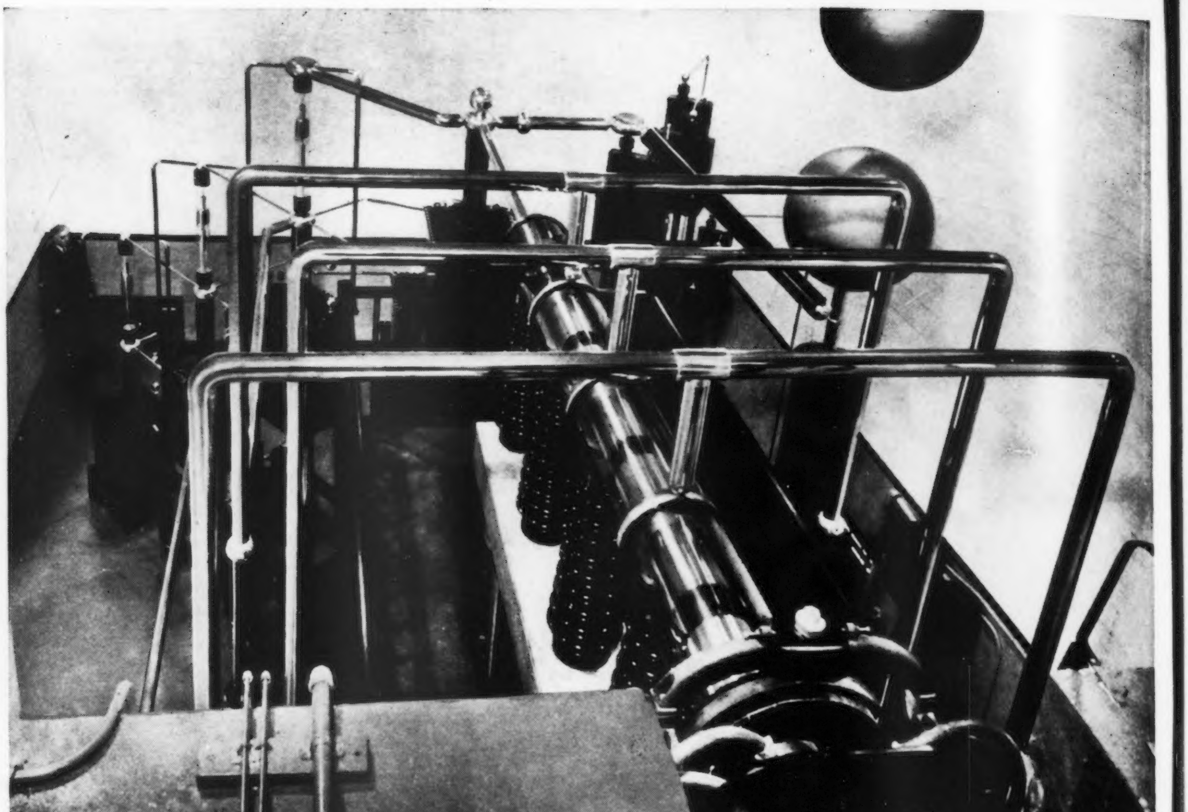

The Condition of BUSINESS

TRADE TRENDS STILL FORWARD. The continued demand for goods of all kinds explains current business optimism persisting in the face of developments which normally would be viewed with misgiving.

When all reports of industrial activity and retail volume month by month tell the same story for a period of a year and a half or more, it would require a real shock to disturb the hopes of the average business man. Ordinary caution suggests the probability of a reaction by Summer, especially in consumption goods, but it must be admitted that there are no surface indications of anything of the sort at this time and the pace set in the heavy goods category seems likely to go on for some time to come.

CONTROL OF SPECULATION. In view of the fundamental uncertainties confronting business at present and the obstacles which must be overcome, the conclusion is warranted that much of the present day activity is a reflection of speculative psychology. This, in turn, has been induced largely by the difficulty of securing fair returns from fixed yield investments, a situation which logically lures money into speculative channels.

It is significant that the chief efforts of the financial authorities at Washington are directed toward anticipating and preventing an unhealthy expansion of speculative activity, and in these general objectives the Government seems to have the approval of the business community.

It should be emphasized, however, that even if the credit managing authorities take all action within their power to control speculation and prevent the misuse of credit, their efforts will be only partly effective as long as the deficit-creating expenditures of the Government continue. These expenditures pour buying power into depositors' accounts as well as into the banks of the country.

A FEW HURDLES. The lively condition of business is best reflected in the general indifference to trouble of all kinds. A strike on the Pacific Coast which paralyzed shipping for many weeks and cost millions of dollars is scarcely noticed in the general business picture until a settlement of the strike gave a fillip to optimism.

Another strike, in the automobile industry—the field which has led all others in its own recovery and in influencing the expansion of industrial production in other directions —merely slows up the tempo of improvement. Then, a settlement of the strike, on terms which ordinarily would not have been regarded by business opinion as satisfactory, merely gave a further boost to activity and to the prices of common stocks. It is worth noting, also, that these stock prices were adversely affected a little later by the prospect of a check on foreign investments in America, but not by unfavorable domestic developments.

Flood losses totaling hundreds of millions of dollars resulted in little if any retarding effect. As to the ever-present danger of war in Europe and elsewhere, this seems on the way to being completely ignored except in the daily flow of news from abroad.

Prospects of new strikes in the steel and coal mining industries are apparently not regarded as important factors in the outlook for business. At least, if they are so regarded by any important part of the business community this fact is not apparent in current statistical data. If any such interruptions to industrial activity as are now being openly discussed should turn out to be successful in any degree, the baneful effects would extend to all principal industrial operations. Yet this prospect seems to have no more influence on the present situation than a tendency to increase activity in anticipation of difficulties.

HEAVY GOODS OUTLOOK BRIGHT. The output of steel at Pittsburgh reached 86 per cent of capacity the middle of last month, approximately equal to the highest point attained in 1929. The immediate cause of this rise was the renewed demand of reopening automobile plants. More than half of the steel plants have substantial backlog orders to carry them forward for many weeks to come. Buying for the future is represented in some of this activity but current consumption is unusually heavy.

Building contracts in the first month of the year showed an increase of about 20 per cent over last December and 100 per cent over the same month a year ago. The steel companies alone anticipate an outlay this year of $290,000,000, compared with $216,000,000 last year.

WAGE INCREASES. The improvement in the heavy goods industry, and in other industries, is accompanied by wage increases. The Carnegie-Illinois Steel Company, for example, is preparing to make an increase of 80 cents that will bring the total to $5 a day for its employees. The settlement of the General Motors strike was accompanied by an announcement of a $25,000,000 increase in the pay of company employees. Other motor companies have announced similar rises and the movement has extended to tire manufacturers. An advance of 12 per cent in wages has been granted to 135,000 clothing workers. The Associated Industries of Massachusetts report that 60 per cent of the industrial workers in that state are now drawing more pay than they did at the 1929 peak.

The W.P.A. proposes to drop 600,000 workers in the next four months as a result of the steady absorption of the unemployed in private enterprise.

Farmer income continues to rise, with likelihood that the current year's income will be much above that of last year. Flood losses to business, not counting the loss of homes and similar damage, are estimated at several hundred millions, but it is expected that this will result in a stimulation of business by outlays in restoration.

RESERVE REQUIREMENTS. In banking there are indications of a considerable shifting of funds to meet the increase in reserve requirements and, to some extent also, because of continued low returns on investments. In the four weeks ending February 10 total deposits in reporting member banks fell by $363,000,000, more than accounted for by a drop in Government deposits of $221,000,000 and in deposits of domestic banks of $168,000,000. A drop of $10,000,000 in demand deposits adjusted, a decrease of $6,000,000 in deposits of foreign banks and an increase in time deposits made the difference.

COMMERCIAL LOANS. Continued industrial and commercial activity give considerable promise that the marked increase in loans of a miscellaneous character which was registered during most of last year will be more than equalled the current year, particularly in strictly commercial lines. A slight contra-seasonal increase in acceptances outstanding in January and an increase in bank holdings of such paper in February are considered significant. The prospect for new capital issues in the immediate future has become somewhat cloudy pending observation of interest rate trends in connection with the increase in required reserves. Demand for municipal and high grade corporate issues continues good.

Any man earning $40 a week can own a place like this

COUNTLESS cliff-dwellers in the canyons of a hundred cities live in hopes . . .

They hope for an oasis from worry . . . for a few acres of their own, where they and their children can stretch their lives in the friendly sun.

And the most humble earner can have all this. For any man with ten or fifteen years of earning power left—*even a moderate earning power*—can make a financial success of his life.

Whatever his hope may be—a place in the country, a college education for his son or daughter, a carefree old age—he holds within his hands the means of realizing his hopes. He need only "add a little to a little" and do this persistently.

For, thanks to compound interest, small sums of money put aside *regularly* will return to you $5,000, $10,000, $25,000 or more. An Investors Syndicate representative can tell you all about it.

And he can show you how this money will be protected—by an institution which for nearly half a century has enjoyed the endorsement of authorities in sound finance. An institution which has always met every obligation on time, when due.

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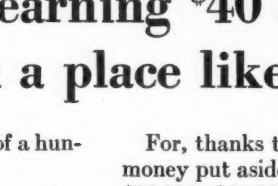

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Adventures in Reading

BOOK reviewing, like other vocations and avocations, has its adventures. They begin when the book arrives from the publisher, carefully disguised in brown paper or heavy cardboard. They continue as the tightly fitted sarcophagus is pried apart, permitting the first curious glance at title, author and jacket. They multiply rapidly as the book is opened and its typography, binding, contents and arrangement are hastily scanned. They end—well, fortunately in many books they never end, for the greatest adventure of all is the reading.

* * *

Not long ago the postman delivered a particularly heavy book package. When the ritual of opening had been performed the commentator found himself with *History of Life Insurance in Its Formative Years* (American Conservation Company, Chicago). Led from page to page by the curious, rare illustrations, and glimpses of the text, he discovered that here, notwithstanding its matter-of-fact title, was an unusually interesting volume, a most human chronicle and appraisal of the forces which, over the centuries, have built a great financial and social service.

Beginning with the earliest manifestations of the self-preservation instinct among ancient peoples, the book picks up life insurance at its beginnings and carries it, informatively and entertainingly, down to the present century. Its 844 pages (including appendices, bibliography and index) represent infinite research in many of the world's great libraries.

* * *

One of the new books that will be widely read in banking circles is the revised edition of *Investment Banking*, by H. Parker Willis and Jules I. Bogen (Harper, New York, $5), which brings up to date a volume that first appeared in 1929, not long before the outbreak of the financial panic. In its present form this primarily descriptive discussion of investment banking institutions, problems and policies embraces the changes that have come during the intervening years.

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Two new publications on the business cycle provide thoughtful reading. One is *Analyses of Business Cycles* by Arthur B. Adams (McGraw-Hill, $3), the other, *Some International Aspects of the Business Cycle*, by Hans Neisser (University of Pennsylvania Press, $2.50). Dr. Adams, dean of the College of Business Administration, University of Oklahoma, discusses the nature and causes of swings in the prosperity curve, governmental policies of economic stabilization, various business cycle theories, and the forecasting of business conditions. He also reviews factors currently affecting business and offers some comment on probable trends. Dr. Neisser, professor of monetary theory at the Wharton School, presents a theoretical framework for the interpretation of international cyclical forces and applies his concepts to specific occurrences, notably those of the last cycle.

* * *

David F. Jordan, professor of finance at New York University, has written a book on how to use money intelligently. *Managing Personal Finances* (Prentice-Hall, Inc., New York, $3), concisely and specifically helps the individual with his everyday financial problems. Emphasizing the principle of intelligent spending, the author says: "The one and only purpose for which money was created was to be spent. Thrift is wise spending and is not imprudent frugality."

* * *

Paul H. Douglas's *Social Security in the United States* (McGraw-Hill, New York, $3) is an analysis and appraisal of the Federal Social Security Act by one who for 15 years worked toward such legislation. Professor Douglas believes that the law as it now stands is imperfect and he suggests a number of changes. He also explains what the Act provides, traces its origin, considers the relationship between Federal and state social security laws, and discusses private pension plans which, he finds, should not be exempted from the public system.

Books in Brief

Federal Income Tax Handbook, 1936–1937. By Robert H. Montgomery. Ronald Press, New York, $10.

Federal Taxes on Estates, Trusts and Gifts, 1936–1937. By Robert H. Montgomery and Roswell Magill. Ronald Press, New York, $7.50.

The latest editions of two widely consulted manuals which guide the corporation or individual through the intricacies of Government tax legislation.

The Monetary Experience of Belgium, 1914–1936. By Henry L. Shepherd. (Princeton University Press, $3.) An account of the post-war experience of a nation whose recent monetary history is less familiar than that of France.

John Deere. By Neil M. Clark. (Privately printed.) An attractive, brief biographical sketch of the Vermont blacksmith who, just a century ago, made the first steel plow and thereby did more than his bit for the farmer.

Catching Up With Housing. By Carol Aronovici and Elizabeth McCalmont. (Baker & Taylor, New York, $2.) A handbook of data on what has been and is being done about housing in the United States—facts, figures and background.

The Value of Money. By Benjamin M. Anderson, Jr. (Richard R. Smith, New York, $2.50.) The author, who is economist of the Chase National Bank, New York, brings down to date in this volume the previous editions of the book. It was first published 20 years ago.

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Exactly What Is Interest?

Washington, D. C.

ABANDONMENT by the Federal Reserve Board of its position regarding the payment of interest on demand deposits represented by its latest "Regulation Q" may be taken as a temporary settlement of the issue, but that it will finally dispose of the matter is not so certain.

The inherent difficulty of the problem is indicated by the history of the regulation. The Banking Act of 1935 gave the Board authority to define the terms used in that Act with respect to interest on deposits, including the term "interest". The Board gave the subject careful consideration and promulgated its regulations in December 1935, to become effective on January 1, 1936. Later in that same month the effectiveness of the clause in Regulation Q defining interest was postponed indefinitely, one reason being that the F.D.I.C. authorities felt they did not have the authority under the law to follow the Reserve authorities in establishing the same rule.

After giving the subject further consideration during 1936, the Board in January 1937 announced that the clause defining interest would be given effect on February 1, 1937. Later, at the request of Chairmen Steagall of the House Committee on Banking and Currency, and Wagner of the corresponding Senate Committee, the effectiveness of the clause was postponed until May 1, 1937. The implication was that legislation would be considered which would either give the F.D.I.C. authority to define interest and impose the same regulation upon non-member banks which were members of the deposit insurance system, or would limit the authority of the Reserve Board in that respect.

THE FEBRUARY ANNOUNCEMENT

ON February 12 the Board announced that its definition of interest (Par. f in Sec. I) would be abandoned and that the regulation would merely provide that (Sec. 2, Par. (a)) "Except as hereinafter provided, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit. Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest." Regulation IV of the F.D.I.C. was modified to read the same.

As indicated by the Reserve Board in its announcement, the effect of the amendments is "to declare existing law rather than to interpret and apply the law to particular practices." In other words, the regulations now permit both the Reserve and F.D.I.C. authorities to apply the general provisions of the law to specific cases rather than attempt to catch all the fish in the large net of a comprehensive regulation.

The present regulation will in fact permit a continuation of current banking practices in collections, exchange and services, unless there is a clear case of abuse and an effort to evade the law. Each agency will be the judge in such matters over the banks in its respective jurisdiction. While the new form of the Board's regulation is less strict than the original, it does not follow necessarily that it will be any less effective in the prevention of abuses. On the other hand, it permits that uniformity of regulation covering all banks within Federal jurisdiction which is essential in the interest of fairness to all banks; some of them doubtless would have been seriously penalized by the Reserve regulation so long as its effects were not equalized by the same regulation over non-member banks.

Back of this change in the regulations and in the strict interpretation of the term "interest" proposed by the Reserve authorities, is pressure from Congress and from banks. Apparently neither Congress nor the banks as a whole are ready for so strict a rule. In the first place, no one knows what would have been the exact effect of the Reserve's definition of "interest" under the law. It is realized that it would have prevented large banks with deposits of country correspondents from absorbing out of pocket expenses in the collection of items sent them by the latter, which probably had charged their customers for the collection; but no one knows the volume of this business or how much expense it involves.

CONDITIONS ARE WIDELY VARIED

ON the other hand, the regulation would also have prevented banks from absorbing the cost of collecting out of town checks on the 2,300 banks not in the par collection system, thus forcing them not only to penalize their own customers but also, in effect, penalizing their business communities.

Local conditions and customs, bank methods, and collection machinery vary so greatly that it would be exceedingly difficult to devise any system of national and uniform control which did not seriously affect business as well as banking in some districts. Where all banks are not under uniform control and compelled to observe uniform practices these difficulties are emphasized.

There is so much confusion and uncertainty growing out of variations in bank practices that perhaps Congress has legislated without full knowledge of the facts. It has been assumed that the enforcement of the Reserve Board's ruling would have resulted in a considerable increase in member banks' earnings through charges for services rendered and collection of out-of-pocket expenses. How much increase in revenue is involved, however, is unknown. Aside from such fairly clear classifications as "interest on loans," "interest and dividends on investments" and to some extent earnings of trust departments, Federal supervisory authorities are much in the dark as to the exact source of other bank earnings.

Federal supervisory authorities are disposed to question whether the savings returned as income from service charges on deposit accounts are reliable and are more and more inclined to abandon all attempts to ascertain the exact origin of bank earnings. With so much uncertainty as to actual present earnings of the banks from charges for services rendered there is nothing by which the authorities could gauge the probable effects of the Reserve Board's ruling as to interest had it been enforced. No more could they gauge the effects of the regulation in other respects.

GEORGE E. ANDERSON

What Other Small Lenders Know

By JOHN FARNHAM

WHILE only recently have a few banks, here and there, begun to make instalment loans to individuals without either collateral security or the endorsement of one or more non-borrowing individuals, this field is by no means an uncultivated one. It is new to the banks, but there is hardly an important city in the country that has not had "finance companies," albeit they are sometimes called by various other names, engaged in this type of business for a good many years. The methods used by some of these private lenders probably will not apply very generally to banks, but, for all of that, their experience ought to be of value to bankers contemplating this somewhat unorthodox field of personal finance.

It ought, perhaps, to be said at the outset that it is not easy to get the operators of small private lending agencies to talk about the details of their business. They fear publicity and they have so often been called usurers in the newspapers and elsewhere that they are peculiarly sensitive. Because of this last, they are particularly chary about revealing the profits that accrue from lending money to the man in the street with no better security than a single signature, despite the fact that on analysis the profits are probably never impressive. It is not possible to say exactly what such profits are, but, from what this writer can learn, the average of these private lenders with $100,000 of capital will show earnings, after a deduction for the losses incident to his business and after deducting interest he himself pays, of somewhere between $15,000 and $20,000 a year. To earn the top figure, he himself will have to borrow up to as much as $30,000 during a part of the year.

AVERAGE EARNINGS OF 5-12 PER CENT

ON its face, earnings of 15 to 20 per cent on owned capital look large, but out of these must be taken the expense of doing business, which probably reduces the amount available for the principals of the enterprise, to be taken out either as salary or dividends. This amount might not be more than $17,000 on an invested capital of $100,000, if the most favorable conditions are assumed, and probably as little as $10,000 under less favorable circumstances. Assuming that the principal of the business is entitled to a salary of $5,000 a year, it appears that capital employed in lending without security will produce earnings of between 5 per cent and 12 per cent, with the average over the years probably nearer the smaller figure.

Of course, in these days a business that seems to offer earnings of from 5 per cent to 12 per cent appears very attractive, but most money lenders seem agreed that earnings on capital decline rapidly as the capital is increased. That is, the lender actively employing $100,000 might make 12 per cent, but the same lender trying to keep $1,000,000 busy might end the year in red ink, because in the first case loans can be carefully selected and supervised while in the last this is likely to prove impossible.

Whether this same limitation would apply to banks is not certain. Banks would probably attract a generally higher type of borrower than customarily finds his way to the small private lender, or rather, banks probably would attract more good names and fewer bad ones. This would make the task of selection somewhat easier. Also, the small lender often has a problem of personnel that is not shared by the banks. The lender himself is usually an artist at successfully putting his money to work, but more often than not his helpers are second rate. Thus the lender himself must carry the whole load of making loans or invite losses.

A SEARCHING CREDIT ANALYSIS

HOWEVER, whether banks would make as careful a credit analysis of their borrowers as do the private lenders is a question. The lender takes nothing for granted and on the whole delves deeper into an applicant's financial history than is customary anywhere else. The fact that a loan applicant has a good job and a good credit rating is not enough. Thus one lender asks these questions on his application blank:

1. Where have you worked for the past five years?
2. What did you earn in each of the past five years?
3. What payments (total for each year) have you made in each of the past five years for automobiles, radios, home equipment, building and loan, life insurance, savings bank, and on other loans made to you?
4. Give names and addresses of all firms to whom payments in Question 3 were made.

Getting the answers to these questions, the lender checks up on the references given. Then he sets the gross payments made in each year against the applicant's earnings in that year. That gives him a pretty clear idea of the prospective borrower's living expenses. If these accord with what he feels the applicant ought to be spending, and if the amount the borrower has normally used to purchase capital assets is enough to service the loan, then the loan is made, provided that the applicant has worked with reasonable regularity for five years. An applicant that checks up well against such an analysis is considered a preferred risk and may be given a slight reduction in interest from the usual rate.

24 HOURS LATE IS TOO LATE

APPLICANTS that fall below this top standard may be granted loans, if they do not drop too far down, but the lender has no delusions about them. He considers them a gamble and if a payment is 24 hours late he gets ready for action.

One thing that banks can certainly use from the experience of the private money lender is the general credit standing of individuals according to occupations and annual incomes. Contrary to popular opinion, in this connection, relatively well paid white collar workers are looked upon as a greater risk than skilled or semi-skilled workmen. Similarly, a clerk earning $1,200 a year is considered poor while a laborer earning the same amount is usually rated fairly well. The ideal loan, if there is such a thing, is for from $250 to $400 to a married man, 30 to 45 years old, who has earned from $1,700 to $2,700 annually over a period of five years, either from a single employer or as the result of a trade. The opinion is stressed that persons earning above $3,000, in particular, are likely to have extravagant habits that may make them poor risks.

Small Loan Status in 16 Cities

FROM one or more banks in each of 16 cities the Northwestern National Life Insurance Company has obtained data showing a general and in many cases substantial expansion of the small loan business during 1936. Several of the reporting institutions mentioned increased borrowing for the financing of small businesses as well as for the purchase of automobiles and household appliances.

Banks that cooperated in the survey also reported, for the most part, that a greater proportion of small loan applications was acceptable today than a year ago, indicating the better financial circumstances of the applicants. Less than ½ of 1 per cent of these credits have to be charged off ultimately—at least that is the experience of the banks whose personal loan departments replied to the questions. Delinquencies are negligible.

Following are comments by some of the bank personal loan departments in the cities surveyed:

Boston: "Number of personal loans made in 1936 shows an increase of approximately 53 per cent over 1935; the ratio of acceptable applications showed a 5 per cent improvement in 1936; percentage of delinquent accounts was less in 1936 than in the previous year."

New York: "Made 223,000 individual loans averaging $295 each; this was a substantial increase over 1935. Consolidation of scattered debts was still the major purpose of borrowers."

Detroit: "Total number of personal loans increased about 25 per cent over 1935; proportion of acceptable applications improved by 50 per cent; delinquencies were considerably reduced; charge-offs 40 per cent less. Some increase in loans made for new purchases."

Milwaukee: "Loans for new purchases showed some increase but the largest item is still consolidation of existing debts. Delinquencies less than ½ per cent."

Minneapolis: "Increase in small loans for new purchases. Delinquencies lower; charge-offs about the same as 1935—negligible both years. A noticeable increase in number of loans to small businesses."

Dayton: "Number of personal loans substantially increased; acceptable applications 10 per cent greater; delinquencies decreased 5 per cent; charge-offs negligible. Loans to finance new purchases increased at least 25 per cent."

Louisville: "Slight increase in loans with fewer delinquencies; charge-off percentage remained constant, being less than one-half of 1 per cent."

Nashville: "Number of personal loans increased approximately 20 per cent; much higher number of applications acceptable in 1936 than in 1935. Proportion of delinquencies decreased; loans to finance new purchases showed a further slight increase over 1935, which in turn was substantially better than 1934 in this respect."

Rapid City, South Dakota: "Loans made to finance new purchases showed a big growth over 1935; automobiles and household appliances were the principal purchases so financed."

Topeka: "Volume of personal loans about the same as last year, but there were still fewer delinquencies. Charge-offs for uncollectible loans remain at zero."

TYPICAL CONDITION

KANSAS CITY, Kansas: "Volume of personal loans 10 per cent greater in 1936; delinquencies slight, approximately the same as 1935; percentage of acceptable applications showed slight further improvement. Distinct increase in applications for loans to be used for the promotion of small business enterprises."

Denver: "Large increase in loans for purchase of automobiles. Few delinquencies. Majority of personal loan applications are for consolidation of debts, medical bills being second in importance."

Dallas: "Simultaneously with a substantial increase in number of personal loans made in 1936, the number of declined applications decreased."

"Volume of new personal loans double those granted in 1935. Percentage of acceptable applications much higher."

Houston: "Thirteen per cent more applications approved in 1936."

Los Angeles: "Larger percentage of applications approved in 1936 than in 1935; delinquencies small, showing reduction in 1936. Consolidation of debts is the largest single purpose for which loans are granted, accounting for 28 per cent of this department's activity."

San Francisco: "Number of personal loans during 1936 shows a substantial increase over 1935. Delinquencies small; charge-offs negligible."

From $25,000 to $25,000,000 in 25 Years

Lumbermens quarter century of progress is an unbroken succession of annual gains—in premium income, assets, surplus, and in dividends to policyholders. Behind this lively growth is a secure company, expertly and economically managed, with an eye not only to its opportunities but its responsibilities as well. Its now-famous "Not-Over-50" Club—acclaimed the most constructive single measure yet undertaken in the cause of auto accident prevention—is typical of the thoroughness with which Lumbermens serves its policyholders and the public interest.

STATEMENT AT THE CLOSE OF BUSINESS DECEMBER 31, 1936
AS REPORTED TO THE DEPARTMENT OF INSURANCE, STATE OF ILLINOIS

[Bonds on amortized basis. Market values of bonds exceed amortized values by $331,031.08. Stocks at market. Security fluctuation reserve is more than sufficient to adjust stocks to cost and bonds to par or cost, whichever is lower.]

ASSETS	
U. S. Government bonds	$5,208,792.29
State, county and municipal bonds	2,085,307.92
Canadian bonds	856,996.04
Public utility and other bonds	1,279,877.55
Stocks	3,292,348.75
First mortgage loans on real estate	1,400,151.17
Real estate (including home office site)	1,186,700.00
Cash in banks	8,337,910.06
Premiums in transmission	2,849,858.01
Accrued interest and other assets	132,262.60
Total cash assets	**$26,630,204.39**

LIABILITIES	
Reserve for losses	$11,362,194.16
Reserve for unearned premiums	6,891,728.00
Reserve for taxes, expenses and dividends	2,781,516.37
Security fluctuation reserve (voluntary)	*1,000,000.00*
Reserve for contingencies (voluntary)	*1,000,000.00*
Total liabilities and reserves	$23,035,438.53
Net cash surplus	*3,594,765.86*
Total	**$26,630,204.39**

Paid for Losses and Returned to Policyholders in Cash Dividends Since Organization: Over Ninety Million Dollars

LUMBERMENS MUTUAL CASUALTY COMPANY

Division of Kemper Insurance

Home Office: Mutual Insurance Building, Chicago, U. S. A.

"World's Greatest Automobile Mutual"

OTHER COMPANIES UNDER THE SAME MANAGEMENT

American Motorists Insurance Company — **Federal Mutual Fire Insurance Company**

National Retailers Mutual Insurance Company — **Glen Cove Mutual Insurance Company**

WASHINGTON BRIEFLY

Washington, D. C.

IN RECENT WEEKS the Treasury has been calling on its depository banks for cash to cover its outlays and apparently proposes to continue the drafts. The general understanding between the Treasury and the Open Market Committee of the Reserve System seems to be that the former will soon begin to issue weekly bills for cash in order to maintain its working balance at a high level.

* * *

THE RATE on the weekly bill issue following announcement of the increased reserve requirements for Federal Reserve member banks hardened to 0.401 per cent. The next week it softened to 0.373 per cent and the next week bids varied from 0.34 to 0.386 per cent, an average of 0.362. Since these are 273-day bills, running past the full incidence of the reserve rise, the rates may have more than temporary significance.

* * *

MEANWHILE, there has been considerable irregularity in the Government bond market. So far as any tendency had developed up to the time of writing, it was in the direction of lower prices for short term obligations, with longer term issues showing some, though not a marked, disposition to follow.

* * *

THE CHANGE in short term rates was in accord with Treasury and Reserve expectations. Mid-February rates in that category were three times those of last October after adjustments following the first increase in reserve requirements, although in November, after the Reserve authorities had intimated further action, rates went as low as at any time in 1936.

* * *

THE IMPORTANT QUESTION concerns rates on longer term issues. It is doubtful if the real position will appear clearly until after adjustments following the full increase in reserves in May.

* * *

THE INCREASE in the sale of savings discount bonds has reduced the necessity of borrowing, and revenue from the Social Security taxes is coming in.

* * *

ONE FACTOR in the Federal fiscal situation is the Treasury's policy of issuing bills to take up funds imported from abroad. Practically, the sale of these gold sterilization bills interferes with the routine issues, and continued gold imports are worrying Treasury officials.

* * *

NEUTRALITY LEGISLATION will probably be shaped with some regard for business. The understanding is that in principle the new law will prohibit the export of arms and ammunition, but will allow the President considerable discretion as to raw materials. Absolute prohibition of exports would run counter to reciprocal trade treaties; it would undoubtedly prevent an agreement with Great Britain. Probably the cash-and-carry principle will be made to apply to any warring nation.

* * *

COMPREHENSIVE FLOOD RELIEF legislation will probably be postponed until well toward the close of Congress. The prospect is that the President's plan for national control through eight regional agencies dealing with both floods and drought will be the basis for such legislation. In any event there will be a long range program involving large expenditures. Congress has already provided a $20,000,000 subsidiary of the Reconstruction Finance Corporation as a flood relief loan agency.

* * *

THE NEW WAGNER HOUSING BILL will involve expenditures of about a billion dollars over four years. This is $350,000,000 over the Senator's original measure, and is necessitated, he says, by the destruction of homes by floods and other disasters; but it is expected that the expenditures for the first year will be cut down.

* * *

FEDERAL CONTROL OF INVESTMENT TRUSTS is no longer in doubt, the only question being as to extent and method. One feature that is certain to be included in the new law will be a degree of publicity for the dealings of investment organizations and their relations to their sponsors.

* * *

PLANS FOR GOVERNMENT REORGANIZATION are being worked out in committee and may not appear on the floors of Congress until well into the Spring. The general understanding is that the President's plan will be used as the basis, with considerable regard given Senator Byrd's plans for economy mergers of various agencies.

GEORGE E. ANDERSON

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*City and State*________________

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

MARCH 1937

Rivers of Government Credit

Washington, D. C.

AS of January 1, 1937, Government corporations and lending agencies had total assets of $11,573,677,731, of which $3,132,529,143 belonged to institutions entirely financed by the Government and $8,441,148,588 to institutions under Government control, in which the Government had more or less proprietary interest. These assets consist of preferred stock of various sorts, including that held in banks; approximately $1,500,000,000 in securities and other investments, many of which are practically loans; various accounts receivable and working capital; and loans of $8,021,183,938. These have been granted by some 31 agencies ranging from the Home Owners' Loan Corporation and the land banks to the Electric Home and Farm Authority, Federal Prisons Industries, Inc., etc.

It is worth while to note who are the customers of these Government institutions, from what part of the country they come, and in what proportion Government credit has been distributed among producing and service agencies. A very large proportion of this credit represents refinancing,—the taking over by the Government of a vast amount of credit, mostly farm and home mortgages, previously held by private investors. Some of the loans represent rediscounting for private interest as, for example, the credit put out by the home loan banks and, to some extent the Intermediate Credit banks. Segregated into very general classes the loans at the beginning of the year were as follows:

	By Corporations Financed Wholly by Government Funds	*By Corporations Financed Partly by Government Funds*	*Total*
Agriculture	$ 383,494,901	$3,154,672,927	$3,538,167,828
Industry	63,100,000	....	63,100,000
Commerce	17,719,627	....	17,719,627
Finance	388,546,503	6,544,443	395,090,946
Railroads and shipping	515,317,785	....	515,317,785
Homes and housing	....	2,910,498,505	2,910,498,505
Public works	206,789,372	....	206,789,372
Miscellaneous	374,499,875	....	374,499,875
Totals	$1,949,468,063	$6,071,715,875	$8,021,183,938

No accurate data have been compiled showing the distribution of this credit in the several parts of the country, but one need not go very far in making an estimate to ascertain that nearly if not quite half of it has gone to the central states. Of the original loans to banks, a rough calculation shows that approximately 2 per cent went to New England institutions, 15 per cent to the Atlantic Coast states, 32 per cent to the east north central states, 22 per cent to the west north central states, 12 per cent to the south central states, 8 per cent to the west south central states and 9 per cent to western and mountain states.

The central states have been most active in repaying these loans to banks, however, and the distribution of the $216,125,279 still owed by banks at the beginning of the year is doubtful. Loans to other financial institutions seem to have been distributed, roughly, in about the same proportion. Loans to railways were distributed, roughly, in the proportion of 42 per cent to eastern railways, 33 per cent to railways in the central states, 15 per cent to western roads and 10 per cent to those in southern states.

The most impressive figures are those relating to the distribution of loans for agricultures and for the refinancing of home mortgages chiefly by the Farm Credit Administration and the R.F.C. and the H.O.L.C., respectively. By very rough calculation the distribution at the beginning of the current year was as follows:

	Agricultural Credit	*Home Mortgage Refinancing*	*Total*
New England	$ 100,000,000	$ 380,000,000	$ 480,000,000
North Atlantic	130,000,000	540,000,000	670,000,000
South Atlantic	240,000,000	240,000,000	480,000,000
East North Central	820,000,000	780,000,000	1,600,000,000
West North Central	1,060,000,000	300,000,000	1,360,000,000
East South Central	470,000,000	210,000,000	680,000,000
West South Central	410,000,000	210,000,000	620,000,000
Mountain and Pacific	240,000,000	320,000,000	560,000,000
Totals	$3,470,000,000	$2,980,000,000	$6,450,000,000

The above figures are given with due reserve, but they represent a fair picture of the distribution. It should be noted, however, that as a practical business matter much of the benefit of the above credit goes to other parts of the country than those indicated. The refinancing of farm and home loan mortgages, for example, may as well serve the interests of eastern owners of the mortgages as the western farmer or home owners. Nevertheless, on the whole the benefits of Government credit have been distributed approximately as outlined.

GEORGE E. ANDERSON

America's Family Budget

By MERLE THORPE

ALEXANDER POPE, speaking of vice, said of it that we first endure, then pity, then embrace. Something like that has happened to us recently in our attitude toward debt. Time was, within the memory of the youngest reader of BANKING, when debt was considered an undesirable thing. To live beyond income was to confess an unmoral if not Godless attitude toward life, a life which we were taught was real, was earnest.

O tempora! O mores! How both have changed!

As I write, the morning paper quotes the head of one of the Federal bureaus to the effect that 400,000 families have been started up the ladder of success by Government loans of $400 to $600 each. Was there editorial viewing with alarm? Not a viewing. Did any reader write his Congressman? Not a writing. It is safe to say not a questioning eyebrow across this broad land was raised. Such items appear daily. We have come to embrace a new and strange philosophy of success, a credo we should have indignantly repudiated a generation ago.

If such is our attitude toward individual debt, how increasingly difficult it is to get a hearing on the national debt or the balancing of the Federal budget. Bankers talk with many citizens during the day; I suppose they find them, as I do, less and less interested in discussing income and outgo of the Federal or even state and local government. Never the twain shall meet? Well, what of it? is the general attitude.

So, when the editor of BANKING asked me to discuss the Federal budget and to suggest ways by which it could be balanced, I wondered if the readers of BANKING, like some other magazine readers I know, really care how or when, if ever. We give lip-service to the necessity of such a course, but do we actually feel it as strongly as we used to feel about our individual financial condition? Are we ready as citizens to insist on a balanced budget at the expense of having present contributions to our town, city and state curtailed or cut off? I doubt it. Why am I skeptical? This is why: Citizens from your communities come to Washington for the purpose of getting Government funds for projects in your home town. Some come in to visit me. Out of at least a hundred I can recall not a single visitor who brought up in his discussion the question as to where the money was coming from and how and when it would be repaid—if ever.

IT'S HARD TO BE ECONOMICAL

I HAVE lived and worked in Washington for more than 20 years. One thing I think I have learned, namely, that the Federal Government is only a collection of families and is moved literally in its impulses and reactions as the individual family. Bankers know by observation, if not by experience, how almost impossible it is for a family or a business, once treading the primrose path, to halt, about face, and take the hard and narrow incline to solvency through frugality. It is done so seldom that such an instance is cause for widespread comment and commendation. It takes character of the sterner stuff, stoical resolution, the courage which commands the supreme sacrifice, and—many are called, but few are chosen.

If it is difficult for the family or individual business to retrench, how much more so the national family! In the first place, credit stringency forces the individual to retrench,—the grocer, the landlord, the wholesaler are ready with both moral and physical support. The banker looks over the operating sheet and shakes his head. The bankers, as you know, are not in position to shake their heads at Congress.

In the second place—and this is important—in the national family one member does not see the sacrifice others must make if deficits are allowed to continue. Picture the American family around the table. Father announces that they are spending more than is being earned. Immediately, mother and daughter and son, and even father, exclaim that they cannot see how they can cut down any more. One day father announces that a crisis approaches, the landlord threatens eviction, the grocer demands cash. One of two things must occur, he says. Either he and the members of the family must bring in more earnings, or cut expenses. But where cut? they protest.

EASY COME, EASY GO

THEN sometimes comes the Great Understanding. Sister realizes that if she insists upon her accustomed way of living, brother and father will have to deny themselves. Ditto mother realizes. And son. And father.

In other words, members of a family know that every dollar expended means a dollar must be earned by hard work, or a dollar not expended in some other direction or by someone else. A family knows that it cannot mint a single thin dime, that a dime represents sweat of mind and muscle. But this Great Understanding never comes to political agencies. While much talk there is at times of economy, especially around election time, I doubt if any legislator as he votes one million and one billion for this or that ever senses the real picture of who pays. The real picture is the individual working at the plough, or at the lathe, who must work harder and longer to help dig up that million or billion. It can come from no other source. None. Never in the past, nor ever in the present, never in the future. Someone's industry must pay the bills. Someone must deny himself. There is no other way. Few understand the incidences of taxation, but BANKING-readers know that no matter who collects the tax—tax-gatherer, manufacturer, retailer—the man with the hoe is the one who ultimately pays.

Another thing. As we picture the farmer at the plough and the laborer at his bench, the whole product of that day's work does not go to pay the public expense. Such expense must come from the difference between his wage and his living costs. So the million dollars does not represent the work of 200,000 men at $5 a day; but from the net earnings of, say, one million men working at $5 a day.

"To dredge Cow Creek in my district I move to appropriate the net earnings of 100,000 men working one week each on the farm, at the factory bench, and in the mine."

If appropriation bills were required to be introduced in some such fashion, there would be more popular and intelligent debate concerning the objects of expenditure.

"An act to provide for an increase of pay to all government employees:

"There is hereby appropriated the labor of all the 30,000,000 wage-earners for one week each year."

Perhaps if the generosity of Congress were presented in this way, there would be more interest on the part of the wage-earning population than there is at present.

Perhaps—but the wish may be father to the thought—this interest and discussion would lead to an appreciation of the fact that two days of every week of all of our labor represent the expense of our governmental establishment—state, Federal and local. We are paying only half of this now and are leaving the other half for future generations to sweat over.

WE HAVE TO *WANT* THE BUDGET BALANCED

ALL this prelude is necessary to a discussion of the question, "How can the Federal budget be balanced?" First, there must be a popular demand, born of a fear of debt and insolvency, a demand that will be heard in Congress, a demand that will include no largesse for the hometown until ends are made to meet.

Our Congressional fathers in Washington are now sitting around the family table considering the larger family budget. Requests from the children pour in, strangely reminiscent of requests the Congressman hears at his home, eloquent pleas for a new car, new party dresses, a new rug, and, as at home, our Congressional fathers must say "No" if the family life of the nation is to be kept solvent. They likewise hear arguments that the spending of this or that will promote the general welfare . . . that it will help us "lick the depression".

The fathers in Washington must have the support of the individual fathers back home if they are to say "No". It will not do for us to pass resolutions for Government economy and then sign petitions or write letters demanding that expenditures for our special interests be maintained at any cost. That is what is going on. It is a monumental piece of irony. We expect Congress to bring down the tremendous expenses of government and at the same time we bring pressure upon our budget makers "to take care" of our respective community and hobby.

PERHAPS DRASTIC LAWS ARE NEEDED

CAN the Federal budget be balanced? Can the nation live within its means? It can. Would a balancing of the budget and a living within our means be in the interest of the public welfare? It is my judgment that on every count it would.

The expenses of the national government fall into two categories,—the extraordinary expenses and the regular. It is the first category that has been the greatest obstacle to balancing the budget during recent years. In the name of recovery and relief, great amounts have been appropriated and spent. The big item on the recovery and relief schedule is that for the W.P.A., which, according to the estimates for 1937, will equal nearly two-thirds of the total expenditures included in this schedule, and in 1938 will exceed three-fourths.

Because of the human factors involved, expenditures for the W.P.A. are difficult to handle and offer stubborn resistance to any reduction. One method by which these expenditures could be reduced, and without encountering too much opposition in certain quarters, would be to have the W.P.A. announce that no new names will be added to the rolls. At the same time, it should state that anyone now on the rolls could withdraw temporarily and then be reinstated without difficulty, should necessity arise. A program of this nature would provide a gradual attrition of the number receiving unemployment relief, which, in turn, could logically be expected to lead to a corresponding decrease in expenditures. It would likewise be the first step which must be taken ultimately before any progress will occur in this quarter, namely, of getting relief problems back under the vigilance of local communities and, as in the past, forcing fringe cases to exert greater effort to take care of themselves.

The next thing to do to bring about a balanced budget would be to invoke such drastic legislation as was passed by Congress in 1870, 1905 and again in 1906, which forbids a Government department or establishment spending in excess of appropriations in any fiscal year, or involving the Government in any contract or other obligation in excess of appropriations unless such contract or obligation were authorized by law.

SPENDERS' PUBLIC RELATIONS

THE law provides penalties of fines and imprisonment, but, because Congress is not definite as to how the appropriation shall be expended, there has come about the necessity for greater and greater deficiency appropriations.

There is another statute, passed in 1913, which might be invoked, namely,

"No money appropriated by any act shall be used for the compensation of any publicity expert unless specifically appropriated for that purpose."

It is the belief of old-timers in newspaper service in Washington that there are at least 1,000 persons employed today by the Federal Government in the capacity of press agenting.

Government activities should stand on their own, it seems to me, and without the need of artificial stimulation. The saving of the salaries of these employees is not a drop in the bucket, but the diminution to this extent of the press-agent pressure upon the Congress to appropriate more and more, to say nothing of the pressure against appropriating less and less, would amount to millions of dollars.

There is no question but that substantial reductions could be made in many instances without interfering with the performance of those functions which are essential and proper for the Federal Government.

"Essential and proper". If such a regulation or policy were invoked, four-fifths of the 250 activities in the Federal Government, now in direct competition with its citizens, would be eliminated. This would help in balancing the budget in two ways: First, because all these services, as is well known, can be carried out more efficiently and economically by the citizens themselves, and, secondly, it will give a larger tax return if the citizens themselves are allowed to perform these services now preempted by the Federal Government.

It is the opinion of business statesmen that the budget should be balanced and taxes reduced, if we are ever to regain our industrial stride.

6th National Interest Survey

By FRANK W. SIMMONDS

The Bank Management Commission's deposit interest rate study, which Mr. Simmonds discusses here, is the sixth of its kind. It covers rates paid by banks throughout the country on savings and time deposits, six-month certificates of deposit, and Christmas clubs. The study in full, including statistical tables, is being made available to the entire membership of the Association.

A FURTHER decline in interest rates paid by banks on deposits during 1936, revealed through a survey made by the Bank Management Commission, American Bankers Association, indicates that banks, adhering to sound management principles, have found it advisable to reduce interest in proportion to the decline in income from investments. The survey showed that the reduction last year occurred chiefly in banks where rates were still above 2 per cent, an average established in 1935.

The drop in rates from 1933 to 1936 has been due in part, of course, to provisions of the Federal Reserve law. That a number of clearinghouses have taken no individual action in governing the maximum rates paid by their members on deposits, but have rather depended entirely on System rulings to prescribe maximum rates, was indicated by the survey. It further appears that most of the banks now paying as high as 2½ per cent are in this category.

In making the study questionnaires were sent to 586 clearinghouses having a membership of about 6,050 banks. Responses were received from 454 associations. Of this number, 324 clearinghouses reported that maximum interest rates paid on deposits were governed by clearinghouse rule, while 113 had no regulation and 17 did not answer the question covering this point.

From December 1, 1935, to December 1, 1936, no changes in interest rates were made by banks in 299 clearinghouses, approximately 66 per cent, while in 152, or about 34 per cent, rates were reduced. One made an increase.

Since a majority of clearinghouses reported no change in interest rates paid on deposits in 1936, the conclusion that the downward movement of rates had been checked might be drawn. However, attention is called to the fact that in most clearinghouses showing no changes this year, interest rates had previously been reduced and had reached the low level, or prevailing rate of 2 per cent, during the preceding year. In addition to the decreases in the 152 clearinghouses, six stated that their member banks would make reductions in interest rates, effective January 1, 1937.

The states in which the decline was chiefly reflected during 1936 were Alabama, California, Connecticut, Indiana, Louisiana, Maine, Massachusetts, Michigan, New Jersey, Oklahoma, Pennsylvania, South Carolina, Texas, Washington and Wisconsin, based on the number of clearinghouses reporting in each state.

The greatest uniformity in rates was the 2 per cent paid on savings deposits in banks governed by clearinghouse rule; of the 323 associations which reported regulation of rates, 198, or 61 per cent, paid 2 per cent. Of the 128 associations reporting no rate regulation, 53, or 41 per cent, paid the same amount.

The rate scale is higher in clearinghouse banks not governed by group rule. More than 2 per cent was paid in 17 per cent of the associations regulating rates on savings deposits, while 35 per cent of the non-regulating clearinghouses paid more than 2 per cent.

Interest rates paid on open account time deposits and six months certificates of deposit were alike in a majority of the clearinghouses. The prevailing rate on both these classes of deposits was also 2 per cent, but there was a wider spread on these accounts than on other types.

Christmas club deposits received no interest in banks in 46 per cent of the responding clearinghouses; in 24 per cent member banks did not carry this class of deposit. Where interest was paid, the prevailing rate was 2 per cent.

THE TWO PER CENT LEVEL

COMPARATIVE figures of rates on savings deposits from 1933 to 1936 show that during 1933 and 1934 the prevailing rate (that paid by the greatest number of clearinghouses) was 3 per cent. In 1935 and 1936 it dropped to 2 per cent, and that figure prevailed in a greater number of associations in 1936 than in 1935.

A comparison of 1935 and 1936 reveals that during the latter year approximately 83 per cent of the reporting clearinghouses which regulate rates paid 2 per cent or less on savings deposits, while in 1935 only 65 per cent did so.

The prevailing rate on open account time deposits is shown to be 3 per cent in 1933 and 1934, and 2 per cent in 1935 and 1936; there was little change from 1935 to 1936. One interesting fact is that from 1933 to 1936 more and more clearinghouses have reported that they do not carry time deposits. In 1936 59 groups had none, compared with 31 in 1935, 11 in 1934 and one in 1933.

On six months certificates of deposit the prevailing rate last year was 2 per cent, unchanged from 1935, although 75 per cent of the reporting clearinghouses paid 2 per cent in 1936 as compared with 64 per cent in 1935. In 1934 the prevailing rate was 3 per cent; however in that year as many clearinghouses which are governed by rule paid 2 per cent as 3. In 1933 the prevalent figure was definitely 3 per cent.

During 1936, nearly 23 per cent of the reporting associations paid 1 per cent or under on six months certificates, as compared with 16 per cent in 1935, 7 per cent in 1934 and 3 per cent in 1933.

On Christmas club deposits the prevailing interest rate in 1933–34 was 3 per cent, although in 1934 almost as many associations paid 2½ per cent or less as reported 3 per cent. In 1935 and 1936 the practice of paying no interest on these accounts prevailed; 204 paid none last year compared with 126 in 1935.

System But Not Too Much

By FRANCIS A. ZARA

IF one could visualize the banking systems of antiquity—of Egypt, India, Rome and the wealthy monasteries of the medieval period—and picture the development of the methods of recording deposits and loans, one would most likely be impressed by the similarity of the approach to these problems as compared to modern times. Can't you imagine the visiting monks from foreign climes travelling from one monastery to another to inquire into the methods and manners of rival orders and learn of their operating procedures? Banking was simple then. It is exceedingly complex now although fundamentally it has changed very little. Today the visiting brothers continue to make their rounds to find out how their other brothers record their transactions. The main differences perhaps are only those of dress, allegiance and, of course not the least important, compensation.

What they sought and what we all seek is a simple way to put on and take off our shoes—so to speak. In other words, the best methods of transacting our business. Some having very ornate and elaborately fashioned boots, the ritual that must be followed is necessarily more involved. Then too, the error of placing the wrong boot on the wrong foot must be guarded against, not to mention the greater danger of losing a boot. Developing procedures is to me, just that—a means of performing a common, every-day feat in the most simple and direct manner, and nothing more. Why these procedures should be complicated and of no appeal unless they are back-bending, is beyond my comprehension. Why they should meet every possible contingency, no matter how remote, and protect against every delinquency in the human race, is also unknown to me. And yet in some quarters that seems to be an inherent part of the specifications. Perhaps this tendency is traceable to our law-makers and writers of regulations who keep us so busy, and who seem to get such enjoyment out of adding to the checks and balances and complications of modern banking.

SIMPLICITY, ECONOMY, SAFETY

NOW, it seems to me that many of us at times work ourselves up to what almost amounts to a passion for what we have spoken of here as a "system". In truth a thing of beauty and understanding—even though only to its creator. Something that answers every question and prayer. It is a lovely picture, but unfortunately very often it isn't what our customers require, or what our shareholders demand. I am mentioning the shareholder as, after all, it is he who makes it possible for us to come and go every day, and we should not forget him. What he wants is something that is as simple and as economical and as safe as it can be made. Mere installations of handsome office machinery and self-basting systems, in themselves, can raise very little enthusiasm from him; for in addition to not always meeting the true needs of the bank's customers, they too frequently cost too much to operate.

Another observation is that "systems" are not something impersonal or wholly apart from ourselves. How often has it been observed that under identical systems marked differences in results exist? It is because of this factor of personnel. And this brings me to my first point—namely, the part that the type and quality of the staff plays in every operating problem and in the development of a system to meet it.

It is conceivable that if the staff is not well trained or proficient, the checks and balances and safeguards must be given greater weight and consideration. If supervision is lax and the level of performance low, the audit controls and checks must necessarily be more numerous and stronger. That seems clear. There is a very important relationship, therefore, between systems on the one hand and the character of the staff which we are to depend upon to carry them through on the other hand; and these differences must be carefully analyzed and understood before we can hope to make an intelligent start in their development. We must know "what" we want to accomplish before we can plan "how". This preliminary analysis is also important.

GINGERBREAD DOESN'T HELP

FIRST, last and always, we should aim to incorporate the most simple and most direct method of accomplishing the desired end. And here is the most difficult part of the task, because, as I have said before, so many who seem to have a hand in this work appear to have an insatiable longing for trappings and wrappings, with the result that unless the finished product is rich in its convolutions and intricate in its design, it simply cannot be dignified by any such term as "system". It is the quality of mind, as it always is with any job, that is put to work on these problems that produces either a good result or a bad one. Those who are steeped in tradition and precedent, who lack imagination and who are unable to differentiate between the essential and the non-essential, will fail woefully in this field. Moreover, they should not be permitted to enforce their ideas on a business world too long suffering from what has been correctly diagnosed as a "profound prolixity".

As a matter of fact, there is scarcely any bank operation today which is not susceptible of improvement, and by improvement I mean simplification. The most effective procedures anywhere are the most simple, and it seems strange to find at times that simple methods are looked upon with what almost amounts to a feeling of suspicion. Perhaps the complexity of modern times has had its effect. And yet, getting away from our jobs for a moment and peering into the builder's tool chest, we discover a simple ball of lead and a length of string. For many ages and up to the present day, no invention or scientific discovery has replaced this device of the ancients—the plumb. Simple in concept? Yes, but most effective. Its use today is proof that many devices and methods which have been tried and utilized in the past, still maintain their usefulness and value. Actually, there is very little that is new.

But Success Begins Before Forty

SUCCESS in banking begins at twenty—or before.

"That's crazy!" you protest. "Why, many successful bankers never had a job until past 20. And hundreds of others were messenger boys and routine clerks for years after twenty. You're lucky if you're under way by thirty! What's more, I could name a few outstanding bankers who never held bank jobs in their lives before forty. Some were teachers. Some were lawyers. Exceptions, maybe. But every banker knows that it takes years of long hours and hard work before you even begin to make a name for yourself and get somewhere."

True enough, good reader, if you assume that practical banking experience begins in a bank. Fact is, though, that almost every banker except the highly specialized expert *begins the most important part of his future profession in his 'teens.* Whether he knows it or not, he is developing a sound character and practising the art of getting along with people.

Banking is a unique profession.

Unlike law or engineering or medicine, you need no college degree to advance to the top. Nor must you have the specialized training that other professions require. You pass no state examinations. You register with no professional associations. *But you must have the most important personality traits of the socially adaptable human being.*

What are these traits?

One of our largest banks lists 13 characteristics of the superior employee. This bank has 6,500 workers, all told. Sixteen thousand men and women applied for its jobs in 1935. Of these, the personnel manager found 80 per cent unemployable.

13 TRAITS BANKERS CAN USE

OF the 13 most desirable characteristcs, four traits reveal skill in dealing with people: great tact, courtesy, a pleasing personality, and the habit of giving excellent cooperation. Another four traits show an excellent attitude toward one's self and one's work: enthusiasm in work, confidence, reliability, thoroughness. Four other characteristics describe good workmanship: exceptional speed, exceptional accuracy, exceptional aptitude, and marked executive ability. And the single trait of unusual initiative may come natural to certain workers while it develops gradually in others.

Now, of these 13 desirable qualities of the potentially successful banker, *every trait but one may be developed and practised in high school and college.* Exceptional aptitude for a specific bank job is demonstrated only on the job, of course.

This fact helps to explain the comment repeated to me again and again by personnel managers and bank executives when questioned about opportunities for young people: "It all depends on the individual," they say with almost monotonous regularity. For a while this puzzled me. I sought more fundamental principles. I wondered, for example, who has the better chance—the high school or the college graduate. Bankers disagreed. Many preferred college boys. Others insisted that high school graduates are more desirable. Again, I inquired about training needed. And once more I could find no unanimity of rule or opinion. Some bankers insisted that training on the job is far more useful than academic work. Others found advanced training in accounting, commercial law and technical courses in graduate schools of business administration of the greatest possible value. "In the last analysis, though, *it all depends on the individual.*" Repeatedly they stressed this point. And now I see why. For the successful banker is first and foremost a successful personality—in the sense that he is skilled in the function of making easy, efficient adjustments to a society which depends on him, and him above all, for its economic survival.

2 KINDS OF PROMISING JOBS

LET'S get into the clear at once about the broader opportunities offering definite possibilities for "success".

The backbone of banking is, of course, monotonous, routine clerical work, highly repetitive in nature. A large metropolitan bank recently classified every one of its jobs. These thousands of jobs were broken down into job categories, indicating specific skills and tasks required for all the bank's work. The first rough findings indicate that, of a total of about 225 *job categories*, male and female, only 35 show definite opportunities for measuring the growth of the individual and for training him to hold more responsible positions. This means, of course, that 35 types of work offer the young banker opportunities to learn new skills and acquire new information which help him to advance. It does not mean that there are only 35 *jobs* that help the employee to progress. All depends on the volume of business and size of organization.

Now, we are interested here only in those positions in which the worker may make progress, work toward a higher salary, and take on more important responsibility.

These promising jobs break down into two broad classes, one relatively small but apparently growing, the other very large and the life-blood of banking.

The first type of work calls for desk specialists: experts in security and investment analysis, income tax and social security problems (a growing field), the statistical problems of credit and foreign exchange, the analytical work of the loan and trust departments.

The second type of work is contact work. It calls for salesmanship of the highest order. Here are the openings requiring above all that elusive quality of the "excellent personality". Here, too, the most successful bankers combine wide technical knowledge with extraordinary social aptitude. It's true, of course, that many outstanding bankers in contact work today have little technical knowledge of the bank's most complex problems. But as younger men advance to the high posts now held by these rather narrowly trained officers, the trend of the times favors the technically trained man of the highest type of personality. When competition for jobs grows steadily more acute while business becomes more complex every day, it's the man with social

By WALTER B. PITKIN

skill plus technical ability and training who wins out. He advances further and faster than the fellow who can deal only with people, or the man who can deal only with facts or with things.

Economic and social trends tend to make the distinction between the desk specialist and the contact man less sharp than before. Versatility is vital to the man and the organization who would adjust with skill to the lightning changes that accompany these years of upheaval that characterize our age.

Now what has all this to do with success beginning at twenty or before?

FUTURE BANKERS IN KNEE PANTS

IT means that the potentially successful banker begins the mastery of technical and social versatility while he is still in his 'teens. It means further that the youth who would advance to success must have real experience in dealing with real life situations long before he reaches his twentieth birthday.

And now we have a clue to the factors that make employment managers confident that certain types of applicants will make good, while certain others must settle into run-of-the-mill work.

What types of youngsters, then, will make the grade? What of their training? What personality traits must they have? How must they be prepared, personally and academically, to make the most of their banking opportunities?

Take training first.

Largely, I believe, because of his social advantages and mannerly experience with superior people, the college man tends to have certain advantages over his high school brother. He is groomed, in most of our larger banks, for contact work. He must be able to learn quickly how to represent his bank when he is far away from its walls. Here is a large bank, for instance, having 40 young college men who are at their desks only half the time. The other half they spend making contacts with correspondent banks, out-of-town corporations, depositors, and leaders in out-of-town industries in which the bank is interested.

Now, what kinds of young men can handle such important and exacting work?

Banks put it differently.

Says one officer: "We like men who have proved that they can manage people and can get out and do things on their own. Take the boy who works on his college paper, or manages the football team, or is a class officer. He's socially efficient. His record proves it. He's used to trying to satisfy dozens of other people—classmates, visiting teams, trustees, college officials. . . . He has to please them all as often and as much as he can. Otherwise he loses out. That's the kind of fellow we want."

Another officer puts it thus: "I'll take men from a few colleges, sight unseen. Why? Because they're expected to undertake outside activities in college, and, what's more, to do some real work in vacations and at odd times. There's one outstanding college, for example, whose student records include plenty of space to record the outside activities of every student during his college term, and another space for paid work done during each Summer vacation. I'll take young men recommended by this college because I know they have had real experience with real people in real life. They know their way around. They're trained to be responsible. They aren't lost when we send them around to meet strangers and get business."

Their success has begun long before twenty!

But personnel managers stress another point that every young banker ought to paste in his hat. *The potentially successful banker adapts himself uncomplainingly to as many as four or five years of routine work, much of it dull drudgery.* Why so?

Because banks understand the importance of versatile training in many departments. And while by no means all youngsters are put through this routine mill of learning the business from the ground up and all over the place, many bankers tell me explicitly that it is their policy to train young men from the bottom up, thus insuring a broad knowledge of the bank's various departments.

Now what kind of young man adapts himself best to this necessary routine training?

Here the high school boy often, but not always, has the advantage. Why? Because he feels less important than the college man. He expects less of the world—although heaven knows even the high school youth of today leaves school, as a rule, with the conviction that the world—and notably Uncle Sam and Big Business—owes him a living. Nevertheless, he lacks the college man's inflated ego. Says one banker, "He doesn't expect us to furnish a desk where he can park his feet, a door embossed with his name, and a vice-president's post in a month or two. Trouble with the colleges and the graduate business schools is this: they're training vice-presidents. But we're hiring clerks."

IT DEPENDS ON THE INDIVIDUAL

SO even though the college youth is exposed to a certain training in the use of his mind, the high school boy's value lies in his open-mindedness. He is better satisfied with modest success. And, if he has the stuff, he learns the technical information often given in college as he goes along on the job. He studies outside. Meanwhile the bank trains him to follow its own business procedure.

Pity the poor personnel manager! He's plagued with young hopefuls whose eyes fill with salty tears as they wail that they haven't had a promotion yet—and look! They've been working now four or five months!

All this does *not* mean that advanced training in fields important to banking is not desirable. Trouble is, though, that the youth who masters technical knowledge in a tony college picks up at the same time a false sense of his own importance, a false picture of a world which owes him not only a living, but "interesting work", a high salary, and a promising career to boot.

This is no place to discuss the failure of our advanced educational institutions. Nevertheless, whether in spite of or because of their education, each June finds thousands of able young citizens whose banking success is begun.

Look for the youth with an engaging personality; and disciplined work habits; and real-life experience in the workaday world; and an open mind; and the conviction that nobody owes him anything. Seek, in short, the successful personality who never stops learning. He's rare, this youth! But he's on his way to achievement.

Better Days for Commercial Paper

By ROY A. FOULKE

IN January one of the larger cigarette manufacturing corporations came into the commercial paper open market and borrowed $15,000,000. That was the first time in 17 long years that this concern had entered the commercial paper market for short term funds.

From a high of $1,296,000,000 in January 1920 outstanding open market commercial paper dropped, like a sailor in a ring, to a low of $60,000,000 in May 1933. That period covered a mixture of happy and tragic years with the excessive commodity speculation of the early Twenties, the now-forgotten building boom, tremendous stock speculation, a few years of easy life, and then the rude awakening, the slow recovery since 1932 and the more rapid recovery in the last nine months.

A 4-YEAR UPWARD MOVEMENT

SINCE May 1933 there has been a fluctuating upward trend in the amount of outstanding commercial paper, with a maximum in 1936 of $215,000,000 on December 31. This is the highest December since 1930 and the only December with one exception (1929) in which outstanding commercial paper expanded.

This upward trend was brought about by the need of important commercial and industrial business enterprises for short term money as (1) business conditions gradually improved from the low of 1932 and that improvement was translated into larger sales and consequently larger receivables, and (2) as the rising prices of this same period and particularly of the past few months meant larger inventories, which made it necessary to borrow funds to carry merchandise at higher prices through the peak of a season.

This latter condition was typified by the cigarette manufacturer already mentioned. In 1933 the average farm price of burley tobacco was 10.6 cents per pound compared with sales during last December of 40 cents per pound, setting a 20-year high. Cigarette manufacturing companies spent more money for burley tobacco during the market which closed in February than for many years, and the open market furnished part of the necessary funds.

The same situation confronts manufacturers, wholesalers and large retailers in a great many lines of business endeavor. Copper today is selling at the highest point in over six years; in January cocoa was the highest in almost nine years (candy prices are going up as well as cigarette prices), and wheat is the highest in over six years.

BARGAIN RATES ARE HERE

SO we find that the volume of outstanding commercial paper during the past few years represents one more barometer of improving commercial and industrial life, fluctuating with a downward trend when sales fall off, factories close down, commodity prices shrink; and with an upward trend as sales pick up, forward commitments for merchandise expand and prices strengthen.

Under these changing conditions short term funds are needed by more and more business enterprises, and a portion of those funds is furnished easily, naturally, normally at the lowest interest rate prevailing in any part of the country on open market commercial paper.

In the early part of 1932, six-month commercial paper was yielding banks 3¾ per cent and the rate was considered low. Since February 1935, over two years ago, the yield has remained stationary at ¾ of 1 per cent per annum and the demand for paper has never been greater.

THERE ARE SCARCELY ANY INVENTORIES

FOR many months blocks of paper as received by the commercial paper houses have been allotted to paper buying banks, whereas years ago important commercial paper houses had running inventories of a million dollars or more and offering circulars with 10 to 20 names on them. Now there are virtually no inventories and no offering circulars. The tremendous excess bank reserves have created a typical sellers' market.

During these past four years the record of commercial paper for nominal losses has never been higher. There is the old story of Johnny, who was asked by his teacher how much four and four was. Johnny replied, "Eight". "Pretty good, Johnny," said the teacher. "Pretty good! It's perfect!" was Johnny's retort. The record of the commercial paper market during these past four years has not only been pretty good; it has been perfect. No corporations selling their notes in the open market became financially embarrassed in the years ending June 30, 1936, 1935, or 1934. For the year ending June 30, 1933, seven such corporations failed to meet $1,327,500 open market paper at maturity, and for the year ending June 30, 1932, there were two such concerns with outstanding paper of $550,000. These notes, however, were eventually taken up and not one cent of loss was assumed upon them by paper-buying banks.

FINALLY, A COMPARISON

IN contrast to this perfect record of open market paper, the losses assumed by national banks, less recoveries, on their own aggregate loans and discounts for the five-year period ending June 30, 1936, have averaged approximately 2¾ per cent. Here is that record:

NATIONAL BANK LOSSES ON THEIR OWN DIRECT LOANS AND DISCOUNTS

June 30	*Number of National Banks*	*Amount of Loans and Discounts*	*Charge-offs on Losses **	*Per Cent to Loans and Discounts*
1936	5,374	$7,759,149,000	$ 90,829,000	.0118
1935	5,431	7,368,717,000	155,896,000	.0212
1934	5,422	7,697,743,000	352,990,000	.0459
1933	4,902	8,116,972,000	214,291,000	.0264
1932	6,150	10,286,377,000	242,725,000	.0236
Five-Year Average				.9258

* Net after giving effect to recoveries during the year.

The What You May Call It

By E. S. WOOLLEY

LANGUAGE fails of its purpose unless the hearer obtains the meaning of words that the speaker or writer intends them to convey. Frequently this basic principle of language is overlooked by those grammarians who insist upon grammatical purity above all else. They worship words and seemingly fail to realize that words are merely tools of thoughts.

If slang, or even the splitting of infinitives, is necessary to convey a thought to a particular hearer, then slang or the splitting of infinitives is the best possible language in that particular case.

Certainly, within any line of business or industry each word in the professional language should convey the same meaning to all persons connected with that business. This does not happen in the banking field today. Many words mean totally different things in different localities. Two brother bankers may be talking together and may use totally different terms or phrases to describe the same department or transactions.

This has resulted in many amusing incidents. A short time ago two bankers were discussing the internal operations of their banks. One was from the Middlewest and the other from one of the New England states. The banker from New England informed his friend that the greatest problem in his bank was work piling up in a bottle neck at the check teller.

This was a term that the banker from the West had never heard before, but he hesitated to ask for an explanation. In his mind, however, he kept wondering who the "check teller" was, whether he was the paying teller or whether it was a position he did not have in his own bank or whether all checks went to one teller, or what.

However, he was more interested in seeing whether the banker from New England could help him solve his problem, so he told him that the "bottle neck" in his bank was the proof department. It was not until after they had been discussing their problems back and forth for almost a half hour that they realized they were both talking about the same thing.

"FOREIGN DEPARTMENT" SEEMS CLEAR ENOUGH

THE Foreign Department is a term which may mean one thing in one bank and an entirely different thing in another. To most people the word foreign means something outside of the country. Ordinarily the foreign department means just this—the department dealing with international commerce or finance.

But to some banks it is nothing of the sort. To them it is nothing but the transit department, foreign checks being merely domestic checks drawn on towns other than that in which the bank itself is located. Such things as this certainly do not make it easy for two bankers to understand each other.

Some bank terminology would seem to go to great lengths in order to hide the meaning. One bank, for example, balances each night in two "sides". From 4 to 4:30 in the afternoon it is quite common to hear someone say, "Well, the first side is out."

A visiting banker would naturally presume that some part or department of the bank was out of balance, but this would not be true at all; exactly the opposite would be the case. This mythical first side would be in balance—the "out" in this case meaning, it is presumed, that it is "out of the way."

What the two "sides" are is something else again. That is a deep and dark mystery. Almost as deep and dark as the "little drawer" the same bank uses for putting through any items which it thinks do not properly belong in one of the regular departments.

Another bank has a terminology that would be just as much of an enigma to the visiting banker. It has no individual ledgers in the bank. The individual ledgers are camouflaged under the name "sub-ledgers." The savings ledgers likewise are non-existent in name. They are called "special ledgers" in this instance.

GRIEF ACCOUNTS

THERE is no real reason for such exclusiveness in terminology. Sometimes, of course, this exclusiveness in terminology is done with malice aforethought. One bank has accounts on its books which are called "grief accounts". No banker, no matter how much of a mind reader, would be able to understand what was contained in those accounts.

As a matter of fact Grief Account No. 1 is 50 per cent of the investigation fees on personal loans and is placed in this account to take care of any possible losses therefrom. Therefore, it is in reality reserve for losses on personal loans, and it could just as well be called by that name. Nothing is really gained by using such a term as "grief account" because explanations are always forthcoming as to what the account really is.

Grief Account No. 2 is the name of the account to which are credited the charges made for insufficient fund checks. While it is true that the term "grief" may be very apt in this case, nevertheless, it certainly is not a word that would be readily understood. As far as a word conveying its meaning is concerned it might as well be Latin or Hindustani. Not content with two grief accounts this bank has just added another. Grief Account No. 3 provides for automobile loans what Grief Account No. 1 provides for the personal loans. Psychologists might doubt the wisdom of increasing grief accounts on a bank's books in this way.

These are just a few of the instances where different expressions are prevalent in banking. In one country in which presumably everybody is speaking the same language, a banker from Portland, Oregon, should have no difficulty in understanding the terminology used by a banker from Portland, Maine—but doesn't he?

How Georgia Researched

THE reader may ask the question as to the value of this research project, now that it has been completed. As to the ultimate value, there is little doubt that this will depend on the effort which individual bankers make in applying the findings of the committee to the operations of their own institutions. As Dr. F. Cyril James has pointed out in this publication, research is not a form of magic which will provide automatic remedies for banking problems. It is a very useful tool, but it should be remembered that it merely poses questions definitely, without providing the answers.

IN arriving at a suitable subject for an initial research project the Georgia Bankers Association faced quite a research problem in itself. There were few guides to be followed and so far as Georgia was concerned the field appeared untouched. Sporadic inquiries had been made from time to time by some ambitious group, but nothing so large as a genuine research project had been attempted.

It was realized that the proper selection of a subject was a matter of the utmost importance and one which would largely determine the ultimate success or failure of the whole undertaking. If an unsuitable project was attempted, the initial effort at research would be a failure and would thereby act to prevent future interest in such work.

Study on the part of the committee revealed a number of determining factors which had to be met in the selection of a project, and they were, in the order of their relative importance:

1. The project must arouse interest on the part of all bankers in the state without regard to the size of their institutions or manner of operation.
2. The project must be simple and must be of some tangible value to all classes of bankers in the state.
3. Sources of data must be available for study and analysis.
4. As an initial project, the subject selected must act as a foundation on which to build future studies, and must be set up in such a manner as to permit tying in with future studies.

THERE WERE BANKS OF ALL SIZES

WHEN the number and size of banks in the state of Georgia are considered, the difficulty of making a proper selection of a project will be more readily appreciated. As of December 31, 1935, there were in Georgia, 58 national banks, 25 state Federal Reserve member banks, and 193 state banks not members of the Reserve System. These banks varied in size from exceedingly small banks to large metropolitan institutions, and the problems of operation were far from being similar.

At length, after much discussion, it was decided that the most pressing single problem confronting all of the banks in the state was the problem of earnings. Since the depression had eased, there had been a shifting in emphasis from the problems raised by fast depreciating asset values and frozen loans, to those problems set up in seeking profitable bank operation at unprecedentedly low interest rates. The committee felt that in considering the question of bank earnings it could hardly fail to arouse the interest of all groups of bankers, provided the subject was presented in a manner applicable to the various groups. Earnings and expenses as a basis of study were also attractive in meeting the requirement of providing a solid foundation of fact upon which to build future banking studies.

It became necessary next to determine the period of time which the work should consider. If the period from the time of the banking holiday in 1933 up to the end of 1935 was selected, only one side of the picture would be presented. That is, the study would show only the recovery phase and aspect of the banking situation. If the study took the year 1930 as a beginning point, there would be little of a "normal" situation, as the depression was setting in rapidly at that time. So it was decided to begin at the year 1926 and come forward through 1935 (the last year for which figures could be had), and thereby to cover a full 10-year interval.

COMPARABLE DATA HAD TO BE FOUND

HAVING determined the general idea and form of the work it was then necessary to translate these aims into terms of records available for study. It was found that the records of the state banking department did not contain comprehensive figures for earnings and expense on the state banks except for a single year. This, of course, prevented the study of such banks for the length of time which would have been desired. It was decided to present figures on state banks for the single year available, but in a somewhat different arrangement from the figures covering the full 10-year period.

For national banks and state member banks of the Federal Reserve System, complete figures on earnings and expenses could be had. However, these records were of a confidential nature, and were in the possession of the Federal Reserve Bank of Atlanta, whose permission for their use it was necessary to obtain. Such permission was at length granted by the Federal Reserve System, upon a number of conditions, the principal one of which was that the finished report would not contain any figure which could be traced, directly or indirectly, to an individual bank.

Further secrecy was required to be maintained in dealing with the figures from the reports of the individual banks. A unique arrangement was made to accomplish this purpose. The Federal Reserve Bank of Atlanta prepared a numbered list, assigning each bank a number, and this was done by a bank examiner. In the actual tabulation of data an examiner called figures from the reports to the committee's statistician, who took them down on a prepared form. Each form was given a number corresponding to the number of the bank on the master list, but the name of the bank so designated remained secret. In this way not even the statistician knew the name of the bank whose operating figures he recorded, but had only a series of numbered sheets. Each sheet received the same number for the entire 10-year period, and

By JOHN N. LYLE

IN the study of large banks ($200,000 and over annual gross) the most important favorable feature was the decline in interest expense which had taken place since 1933. In 1926 such banks paid out 29.9 per cent of their total gross earnings for interest, and this figure rose to a high point of 31.9 per cent in 1930, whereas in 1935 it had declined to the more rational figure of 13.9 per cent. The report also revealed that the year 1934 saw operations in the large earnings group conducted at the record low ratio of 67 per cent, as compared with the highest expense ratio of 817 per cent of gross earnings, which was experienced in 1932. Of course, the operating ratio does not consider charge-offs or recoveries, which are deducted from or added to the profits after operating expenses have been taken out.

in this manner it was possible to trace the history of a given bank over the period without learning its name. Such a system of operation maintained the confidential nature of the information, but at the same time entirely answered the committee's needs.

In determining the information desired, the committee selected the principal items making up the income accounts, and those forming the expenses. On the income side the figures were summarized as interest from loans, interest from investments, exchange and collection charges, income from service charges, and all "other" income. Regarding expenses, the items were set down as interest paid on deposits, interest paid on borrowed money, with a total for interest expense. Next came wages and salaries as an individual item, to be followed by taxes, and, lastly, other expense. A total of all these expense items gave the bank's operating expense, which, when deducted from the total gross earnings, resulted in the profit from operations.

GROSS ANNUAL INCOME THE BASIS

RECOVERIES from all sources formed the next item, followed immediately by items for losses on loans, on securities, and other losses. The net figure for recovery or loss was deducted from the earnings of operations, leaving as a result, the net profits before dividends. At this point the dividends were subtracted and the remaining figure gave the portion of the earnings passed to undivided profits. After the actual figures had been taken down they were calculated as a percentage of the gross earnings, and the finished report contained only ratios, supplemented by several selected items of averaged data. These were, among others, deposits, and a classification into time and demand deposits, with bank deposits given in the case of the larger banks.

It was determined to make classifications as to size of banks on a basis of annual gross earnings, or revenues, instead of by size of deposits, as had been done in a number of classifications made by several other states. The committee felt that the recent rise in deposits would tend to confuse the picture, and that the important thing to be considered in a study of earnings and expenses was to place those banks in the same group which had approximately the same amount of gross annual income.

Determination of class groups as to size was accomplished by a process of trial and error. While one group size might be suitable for use in 1930, it would prove entirely unsuited for the whole period of time. Eventually it was decided to group the banks into five separate classes, and, in addition, to calculate one set of figures for all the banks:

Class 1—Banks with annual gross earnings up to $25,000
Class 2—Banks with annual gross earnings from $25,000 to $50,000
Class 3—Banks with annual gross earnings from $50,000 to $100,000
Class 4—Banks with annual gross earnings from $100,000 to $200,000
Class 5—Banks with annual gross earnings $200,000 and over

These proved to be the most satisfactory distribution of groupings and provided results applicable to banks of all sizes. Earnings and expense figures were, therefore, reduced to ratios as a percentage of gross earnings for each of the above groups and for 10 separate years. In addition, the average size of deposit liabilities was taken off, and the relative cost of interest on demand deposits was calculated as a separate item. This cost was also figured for interbank deposits in the case of the large banks.

The compilations having been completed by the committee's statistician, a special study was then made of the figures and a report written. This report pointed out the important features of the work, and suggested comparisons to be made by the individual banker. For this latter purpose space was left vacant by each year's figures so that a bank could insert its own operating results and compare its progress with trends shown by the group as a whole.

Space will not permit a lengthy discussion of the report, but some of the more important findings will be touched on briefly. One of the most striking features was the disclosure of the fact that there were 52 state banks in Georgia in 1935 which fell into the class having less than $7,500 in gross earnings for the entire year, with an average income of $5,017 per bank. Such banks had an operating ratio of of 74.0 per cent of gross earnings, and net charge-offs of 21.7 per cent, leaving a net profit before dividends of 4.3 per cent. In the group with gross earnings between $7,500 and $15,000 per annum, there were 67 banks with an average income of $11,371. This group had a 67.1 per cent operating ratio and earned 13.2 per cent net before dividends, with average deposits of $172,192.

It was also found that banks with gross earnings in the $100,000 to $200,000 group and average deposits of $2,000,000 were among the hardest to operate at a profit. These banks, over a period of 10 years, had average annual gross earnings of $141,000 and an operating ratio of 77.2 per cent.

In making up the report the committee stressed the importance of greater supervision of loans to insure against losses and emphasized the need of holding interest expense to the point where the management could be sure that the money obtained by the bank through the payment of interest could be utilized safely and at a profit to the institution. Payment of too much interest generally led to heavy losses resulting from unsound loans, and when both of these factors are considered they undoubtedly constitute the largest single causes of unsuccessful bank operation.

Receiving and Paying Stations

By JOSEPH B. ELY

IT is undoubtedly true that the cause of failure of many small banks, as well as larger ones, was lack of proper management. It has been the general opinion of banking authorities that small unit banks could not as a class afford to employ proper and efficient management. As a result, there have been many who felt the situation could be improved by branch or chain banking. Some states, however, have taken a stand against the widespread extension of chain banking and have allowed only "bank agencies" or "stations" to be established in the bankless communities. These four states are Arkansas, Iowa, New Mexico and Wisconsin.

Our Wisconsin banking authorities evidently feel that some small banks have been run properly, and, with proper supervision and control by good bankers, sound banking can be carried on through stations in communities which can not support a unit bank. There is no doubt that pressure was exerted all over Wisconsin by rural people to retain their local banking service. Rural people have been used to a friendly local service, one where they could discuss leisurely a wide range of problems with a country banker who was familiar with their affairs. The solution of the bankless town was, therefore, attempted in Wisconsin by means of the "receiving and paying station".

On September 1, 1933 we (the Pewaukee State Bank) opened a station at Merton, 5 miles away. This is a small village serving a good sized dairy section. It has a milk condensory and a pea cannery. Soon after establishing this station, we were approached on the matter of taking on another at Brookfield, 6 miles east of us. Brookfield serves an excellent dairy territory so close to Milwaukee that it has some suburban residents. The establishment of this station did not materialize until June 20, 1936. Both stations replaced independent unit banks. During this time we continued to use our old unit bank bookkeeping system, analyzing our needs as we saw them, getting as much information as possible from the banks of our state which were operating stations, and consulting with a stationery and supply house executive who was making a study of mercantile bookkeeping supplies as applicable to the banking business.

NEW BOOKKEEPING SYSTEM INSTALLED

WITH the opening of the second station, our work was so increased that we immediately started installation of the new bookkeeping system we had decided upon. It has some features which modern mercantile businesses have been quick to grasp but which the bankers, always slow to change, have investigated very little. We were sure that this method would solve the mechanical difficulties presented by the stations.

Our problems are, first, to maintain a better service, both as to personnel and details of the mechanics of banking. Our service must be friendly, personal, of a high class, with modern methods and equipment. These rural people expect all this. Secondly, we must operate these stations at a profit or they can not be continued and we must have the same supervision of our loans as at our home office, in order to minimize losses. Further, whereas the old unit banks had employed two men in each office, we must handle each station with one man and also reduce costs of supplies and stationery.

THE MANAGEMENT WAS CENTRALIZED

WE centered the management at the home office and threw all the burden of keeping proper records onto our new bookkeeping system, which was also concentrated at Pewaukee. It is impossible to explain fully the detailed working of our records. The results are, however, very gratifying. The Pewaukee office and each station have full detailed information of all transactions. All records are either machine posted or typewritten with carbons and all records are made originally with the idea of making them complete at the time, with a minimum of future handling. Our station managers' time is almost entirely spent in waiting on customers, and they are able to supply to the customer, without delay, details regarding his notes, certificates, savings, etc. Our records show on the daily statement all details as to each station's business, such as deposits, loans, earnings and expense.

All checks written by our customers, either of main office or stations, are sent direct to our Pewaukee office by our correspondent banks, where they are posted the same day to the accounts of their respective office. Our managers report their day's business at 3 p. m. daily by telephone, calling the totals of each debit and credit by the account number appearing on our daily statement. The daily report form with full details and attached items is then mailed or brought to Pewaukee by the station manager. A duplicate of the daily report is retained at the station for future reference if necessary. When the main office closes, the books for the three offices have been posted and balanced.

Before we took on these two stations, our bank was run by an attentive board of five directors. As president, I was and am now, the active executive in charge. We are fortunate in having an interested attorney, our vice-president, who couples sound business judgment with his knowledge of law. The two of us have regular days at each station when our customers know they can consult with us at the same time. We feel we furnish a very good service in this respect.

From our own standpoint and that of our customers, we are well pleased with our venture into the "receiving and paying station" business. We understand the stations in Wisconsin have been generally successful since the first were opened. The Wisconsin Banking Commission has issued 92 permits for receiving and paying stations, of which only two have since been closed and those by the parent bank; one of these was later opened by another bank. It would seem that our Wisconsin plan is working out satisfactorily.

Too Easy Money

By GEORGE E. ANDERSON

PROBABLY it will be well into the Summer before interest rates will feel the full effects of the increase in reserve requirements of Federal Reserve member banks. Nor is the prospect very encouraging. By providing that the increase is to go into effect in two instalments the Reserve Board enabled the banks to prepare for the change, but it also softened whatever reaction toward the raising of interest rates might have been anticipated.

In keeping with the expectations of the Reserve authorities, the general opinion of bankers is that rates on call loans, acceptances, Treasury bills and short term paper generally —all of which showed some improvement early last Summer after reaching a depression low point immediately previous to the change—will advance further when, or possibly before, the full increase in reserve requirements goes into effect in May.

The outlook for improvement in rates on long term paper is not so good. It must be realized that the authorities carefully canvassed the probable effect of higher reserves on money rates and acted in the belief that the step would not interfere with the Reserve's easy money policy. The Board has increased reserve requirements to prevent the undue use of credit for speculation, not to improve interest rates. The core of Reserve and Government policy is easy money.

So long as this policy lasts there is little probability of improvement in the interest situation except to a limited degree on short term paper. What this means to the banks can be appreciated by a review of the present situation. A rough calculation indicates that although member banks had loans outstanding during 1936 which averaged around $700,000,000 higher than in 1935, it is doubtful if their income in interest thereon increased by as much as $10,000,000.

IS REAL CAPITAL OVERABUNDANT?

INTEREST received on loans by member banks for 1935 was reported as $498,419,000. For the half year ending June 30 last the amount received was $253,059,000, or at the rate of $506,118,000 for the whole year. Loans increased after June 30 but interest rates obtained by the banks steadily decreased. The average rate in 1935, as reported by the Reserve Board—that is, the ratio of total interest received to average volume of loans outstanding—was 4.16 per cent. For the first half of 1936 the ratio was 2.04 per cent or at the rate of 4.08 per cent for the year. As a matter of fact, however, rates obtained on loans fell constantly during the year except in New York City where they hardened a little after September although rates in banks there averaged only 2.43 in November as compared with 2.64 in January.

Rates in eight other northern and eastern cities fell from 3.62 per cent in January to 3.47 per cent in November while those in 27 southern and western cities fell from 4.47 per cent in January to 4.23 per cent in November. For the new year there has been a slight hardening in New York City for the short term, and an apparent steadiness in other rates; and in the country at large it appears that rates have steadied somewhat under the influence of the anticipated increase in reserve requirements. On the other hand, the volume of loans held by the banks fell off by approximately $300,000,000 in January. Bank income from interest on loans at best is an uncertain quantity under present credit conditions.

Bankers and supervisory authorities have come to realize that the condition created by artificially low interest rates represents a lack of balance in the business situation and outlook whose indefinite continuance cannot result otherwise than in trouble. On the face of things, advancing prices of commodities, and securities, and increased costs of operating businesses, are factors which, when not the direct effect of low interest rates, offer a combination working towards inflation of a dangerous sort which cutting excess reserves to from $500,000,000 to $700,000,000 will hardly prevent. In other words, the prospect is that under the easy money policy the full incidence of increased reserve requirements in May must be followed by open market operations to control credit further.

WHAT THE FIGURES SHOW

WHEN low rates of interest are the result of artificial conditions, they represent no superabundance of real capital, but rather the fixation of an artificial relation between real capital and the demand for its use in productive enterprise which in itself is as much of an unbalance as would be the fixation of wages or production costs at an unnatural or artificial high or low rate. It is rather doubtful if real capital, the result of the people's savings, in this country at present is much in excess of the demand for it for productive purposes, low as that has been. If the amount of deposits which have been pumped into the banks in the past seven years or so by Government deficit borrowing and spending were subtracted from the present total something like the real state of the capital market could be perceived. The excess funds gorging the banks represent in large part not accumulated wealth but accumulated debt. That debt, in time, must be paid by taxes taken from the nation at large. Until these taxes are levied and collected and the debt taken up, the nation's actual real position in the matter of real capital will be in question.

So long as bank deposits created by deficit financing compete with real capital for normal investments, the banks, in seeking employment for their funds, and the savings investor, seeking the proper return upon the results of his thrift and sacrifice, contend with a constant urge toward unsound and dangerous investment. There is temptation to an increase in already excessive debt, discouragement to thrift and the accumulation of real wealth, and a lower standard of living for those who expect to depend ultimately upon their savings for their support.

Money can be too easy too long even in the interests of business recovery.

Capital Seeks Mortgage Loans

DATA on the availability of mortgage money and the trend of mortgage interest rates in 253 cities of the United States are included in the 28th semi-annual survey of the real estate market made by the National Association of Real Estate Boards. The study is based on confidential reports by officials or committees of member boards throughout the country.

Gross cost to the borrower on first mortgages with good security is reported to be at about last year's level in 61 per cent of the cities, with 37 per cent reporting that the cost is falling. Interest costs are going up in 2 per cent of the cities, all comparatively small communities.

The present actual interest rate at which first mortgage loans on new moderately priced homes are now most commonly being made is still the 6 per cent rate. Of cities reporting, 64 per cent cite it as the rate most used. This is exactly the percentage of cities so reporting six months ago.

A 5 per cent rate prevails in 30 per cent of the cities on this kind of mortgage.

Only four cities of the country show that a rate lower than 5 per cent is in common use.

Capital is seeking loans in 75 per cent of the cities, while desirable loans are available in excess of capital supply in 14 per cent of the cities. This is almost exactly the proportion of cities so reporting six months ago.

The low returns yielded by savings banks and like institutions are mentioned as a factor in turning idle funds into investment real estate.

Detailed tables prepared by the association on the mortgage money situation and interest rate trend appear below.

"Comments from individual cities," the summary states, "show the very close relationship between financing conditions and the outlook for new home building. Mortgage terms available, including interest rate and length of the mortgage term, are cited by city after city as the dominating factor of their individual situations in the market outlook."

In general, the survey notes a steady advance in every phase of the real estate market, more nearly uniform for cities of every type and geographical section than has been the case for years. Many municipalities report that the gain has been so far consolidated as to indicate a very active building year in 1937.

Perhaps the outstanding good portent in the findings, says the association, is that renewed demand for business property is already reflected in higher rental scales for the downtown sections of about 75 per cent of the principal cities. In localities where the realty advance has been most marked, new building is reported as having stabilized the upward movement of residential rents, and new apartment construction has begun to join home building to counterbalance the growing absorption of existing residential space.

The present survey shows the first post-depression reports of an advance in the price of home sites; the rise in some cities has been as much as 10 per cent.

"Residential space," continues the association, "is shown to be well absorbed. But notwithstanding the increased space absorption, rise in residential rents, while very general over the country, has been very gradual. This is true both for detached houses and for apartments.

"Under-supply of single family dwellings is shown in 72 per cent of the cities. Only 1½ per cent report any over-supply. In a like survey of six months ago 76 per cent of cities reported an under-supply of single family dwellings. The slight decrease would appear to be an indication of the balancing effect of new home building.

"Rents are up for single family dwellings as compared with a year ago in 90 per cent of the cities, and are down in less than 1½ per cent. Apartment space is higher in 86 per cent and not a single city shows any down-trend of apartment rents."

PERCENTAGE OF CITIES REPORTING AN EXCESS, EQUILIBRIUM OR SHORTAGE OF MONEY FOR REAL ESTATE MORTGAGE LOANS

Section	*Capital Seeking Investment*	*Equilibrium*	*Loans Seeking Capital*
Total for United States	75	11	14
New England	75	25	—
Middle Atlantic	69	9	22
East North Central	66	18	16
West North Central	81	—	19
South Atlantic	81	3	16
East South Central	100	—	—
West South Central	85	10	5
Mountain	80	20	—
Pacific	81	8	11
Size of City			
Over 500,000	89	11	—
200,000 to 500,000 population	96	4	—
100,000 to 200,000	87	7	6
25,000 to 100,000	75	10	15
Under 25,000	67	15	18
District and county boards	66	13	21

PERCENTAGE OF CITIES REPORTING RISING, STEADY OR FALLING INTEREST RATES ON MORTGAGE MONEY

Section	*Rising*	*Steady*	*Falling*
Total for United States	2	61	37
New England	—	70	30
Middle Atlantic	5	64	31
East North Central	1	69	30
West North Central	—	31	69
South Atlantic	—	51	49
East South Central	—	60	40
West South Central	5	57	38
Mountain	10	60	30
Pacific	4	61	35
Size of City			
Over 500,000 population	—	44	56
200,000 to 500,000	—	43	57
100,000 to 200,000	—	67	33
25,000 to 100,000	3	64	33
Under 25,000	2	52	46
District and county boards	5	73	22

Supreme Court Building, Washington — WIDE WORLD

Ides of March — © BELL SYNDICATE

BANKING'S PICTURES

Headlines — SOIBELMAN

The Names Are Familiar

William I. Myers, Governor of the Farm Credit Administration

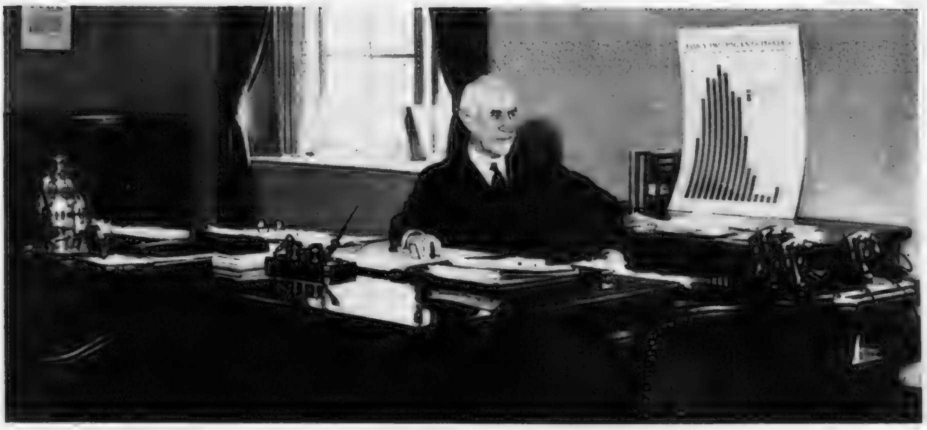
Left, S. M. Garwood, Production Credit Commissioner

Right, S. D. Sanders, Cooperative Bank Commissioner

George M. Brennan (at desk), Intermediate Credit Commissioner, with Arthur C. Sullivan (left) and John T. Walker, Jr., Deputy Commissioners

PHOTOS BY HARRIS & EWING

John H. Fahey, Chairman of the Home Loan Bank Board and the Home Owners' Loan Corporation



Albert S. Goss, Land Bank Commissioner

Members of the Senate Banking and Currency Committee in the picture below are, left to right, Senators Alva B. Adams, Herbert E. Hitchcock, Henry Cabot Lodge, Robert F. Wagner (Chairman), Carter Glass, James Hughes, Robert J. Bulkley, and George L. Radcliffe

PHOTOS BY HARRIS & EWING

Above, at desk, Stewart McDonald, Federal Housing Administrator

Right, a battery of check punching machines in the F.H.A. offices

Below, the drafting and mapping division of the F.H.A.

PHOTOS BY HARRIS & EWING

Recent Authors

HARRIS & EWING

MERCANTILISM RETURNS

We have witnessed the return of a new mercantilism. . . . Nations believe that the protections of their gold supply and the development of their productive capacity are more important than low prices to consumers and the free flow of commerce across frontiers.

These economic policies have a political bearing which makes them a part of the world problem of security and peace.—William S. Culbertson, *Reciprocity*, (McGraw-Hill)

HARRIS & EWING

EFFICIENT FOREIGN TAXATION

If any important functions are to be retained by local governments they will be supported increasingly by central government funds. It is only a question of how far and how fast centrally administered taxes should replace independent local taxes, to what degree local independence must be sacrificed to efficiency and economy.—Mabel Newcomer, *Central and Local Finance in Germany and England*, (Columbia University Press)

WIDE WORLD

SOCIAL SECURITY TO COME

The Social Security Act should not be viewed as the triumphant and perfect conclusion to the struggle to obtain greater security. It is on the contrary full of weaknesses and is strikingly incomplete.

If we are to progress, the act should instead be regarded as merely a first step which must soon be followed by others.—Paul H. Douglas, *Social Security in the United States*, (Whittlesey House)

NEEDLESS INTERFERENCE

Public regulation and supervision call for steady improvement in the qualifications of officials, and for freedom from politics.

As banking standards are raised and as the system is improved, the need for regulation on the part of the authorities will be less. The kind of executive we ought to have in every bank does not require policing to assure that the right sort of banking service will be provided to the public. —George W. Dowrie, *Money and Banking*, (John Wiley & Sons)

OVERSEAS INVESTMENTS

If economic nationalism continues . . . and if managed currencies take the place of the gold standard, there will be little opportunity for the profitable employment of capital abroad . . . if the world returns to international relations less subject to governmental interference, and if currencies are reestablished on a gold basis, the economic resources of the United States will make the exportation of capital almost inevitable.—John T. Madden (with Marcus Nadler and Harry C. Sauvain), *America's Experience as a Creditor Nation*, (Prentice-Hall)

TAXABLE INCOME PUZZLE

Each clear (taxable income) case is surrounded by a penumbra of much more doubtful cases, in which the Court has stretched its original concept under the stress of its own or the legislative desire to prevent tax-avoidance. The philosophy of the Supreme Court, even in this single field, cannot be epitomized on a single page.

There is not really a single philosophy, but the philosophies of the long procession of distinguished individuals who from time to time have constituted the Court.—Roswell Magill, *Taxable Income*, (Ronald Press)

HARRIS & EWING

Inside a Russian Bank

In savings Bank No. 10 in Moscow, American-made accounting machines are used

Savings bank table for checking up winnings on state loan bonds

Depositors can pull up chairs to a writing table in Savings Bank No. 5287 on Gorky Street in Moscow

A savings bank tellers' department, where the inevitable pictures of Stalin and Lenin hang on the wall

ALL PHOTOS FROM SOVFOTO

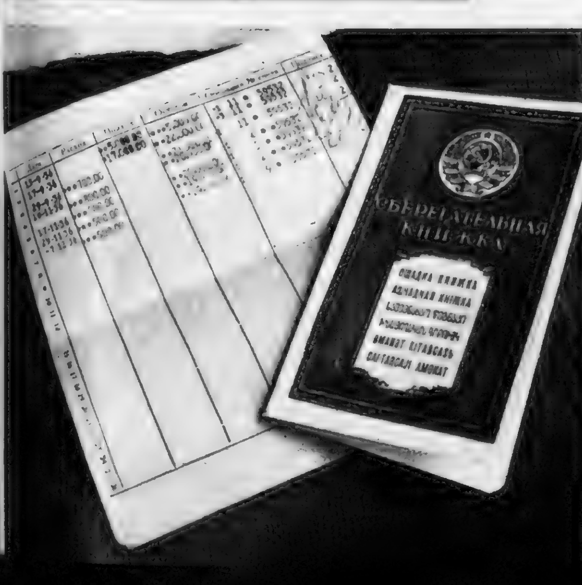
At the left, a Soviet government employee fills out a check at his savings bank. Above, he hands it, with his passbook, to a teller

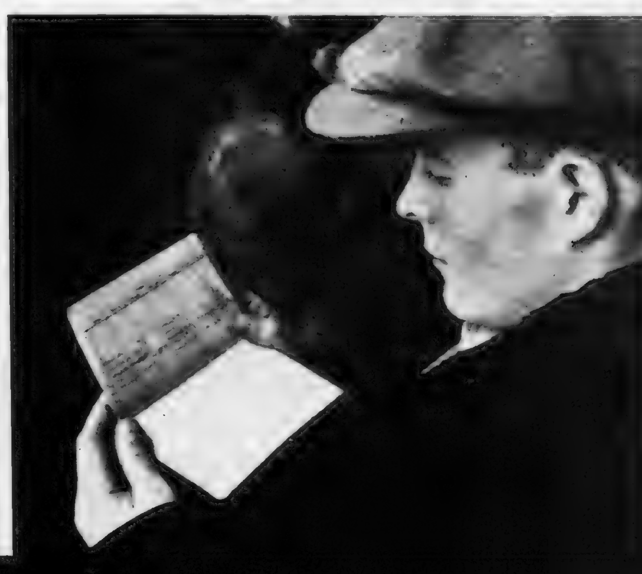
Left, the transaction is recorded with a bookkeeping machine of American make

Right, he receives the cash from his savings account and counts it at the window

Lower right, he looks in his passbook to see how many rubles are left

Lower left, portrait of a passbook, with six of the 90-odd Soviet languages printed on the cover





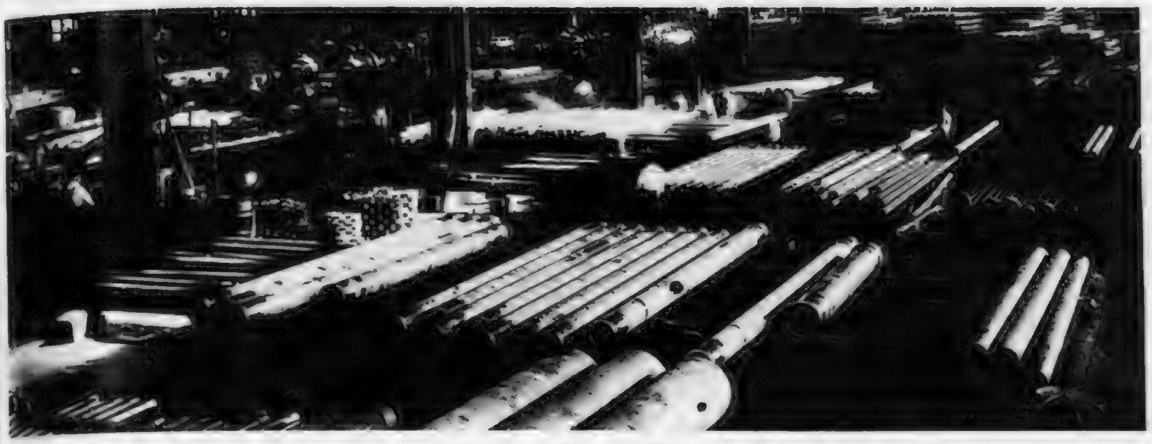
The Rise in Employment

According to data published in the Federal Reserve *Bulletin*, employment in food products industries rose 7.3 per cent from December 1935 to December 1936, the latest date for which figures are available

In the paper and printing trades the 1936 increase in employment was 5.6 per cent

PHOTOS FROM EWING GALLOWAY

In those industries manufacturing stone, clay and glass products employment rose 11.1 per cent in 1936

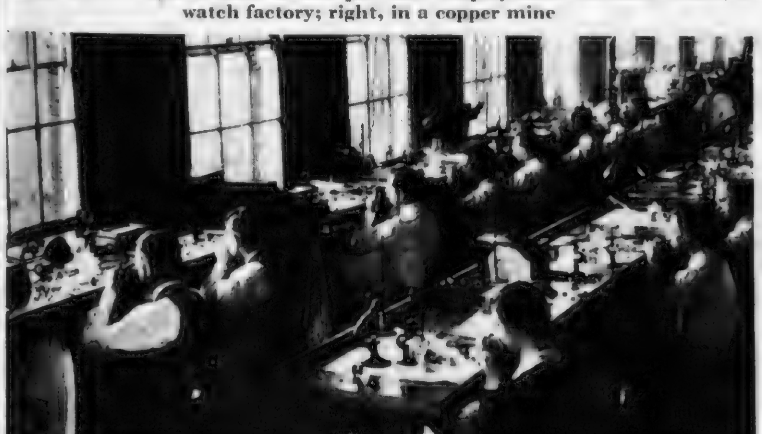


Employment among iron and steel products workers rose 17.7 per cent in 1936

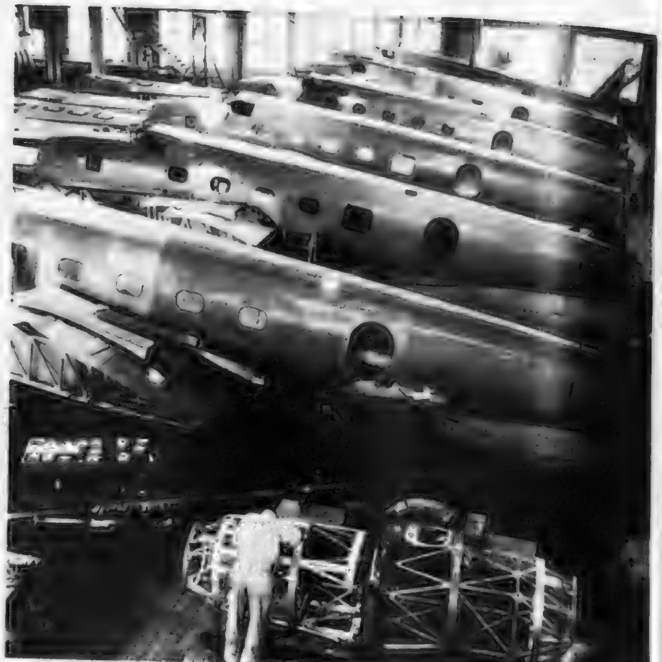
Manufacturers of machinery (agricultural, electrical, foundry products and radios, as in the picture below) increased employment 18.5 per cent during 1936

There were 10.5 per cent more employees in concerns manufacturing lumber products (furniture, millwork and sawmill products) in December 1935 than December 1936

In the broad classification of nonferrous metal products—aluminum, brass, bronze, copper, clocks and watches, lighting equipment, silverware, etc.—the Federal Reserve figures show a 13.6 per cent employment increase. Below, a watch factory; right, in a copper mine



PHOTOS FROM EWING GALLOWAY



Manufacturers of all transportation equipment employed 15.4 per cent more workers last December than in December 1935

Rubber products accounted for a 1936 employment increase of 17.5 per cent

Textiles and textile products gave work to 6.5 per cent more people at the end of 1936 than at the end of 1935

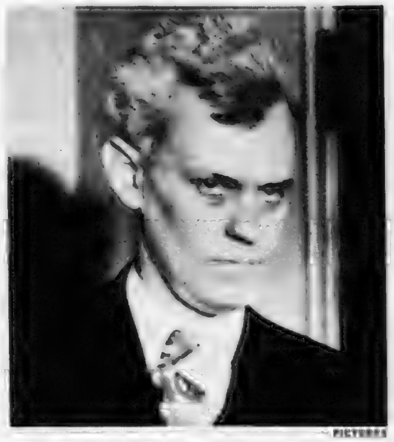
PHOTOS FROM EWING GALLOWAY

Several Personal Opinions

U. & U.

UNEMPLOYMENT *CAN* END

VIRGIL JORDAN, president of the National Industrial Conference Board, says that a continuance of national recovery at the rate it has followed since 1933 would wipe out unemployment in this country by 1941 if the factors of political and social change could disappear from the picture; after that time there would be an increasing shortage of labor with the average standard of living exceeding that of 1929 and the highest on record, and the general level of prosperity rising to a point higher than ever before



PICTURES

IF THERE IS ANOTHER N.R.A.

CHARLES F. ROOS, formerly N.R.A. research director on policy matters: "General efforts to apply such [economic] planning must mean, as in the case of the N.R.A., little more than the swapping of bargaining positions—monopolistic advantages for labor concessions—with the choicest gains going to the groups exhibiting the greatest political power. . . . Enactment of another N.R.A. plan of wage and hour regulation will promote uncertainty and this will mean decrease in production . . ."

WIDE WORLD

PROLONGED "EMERGENCIES"

H. FENTENER VAN VLISSINGEN, of the Netherlands, president of the International Chamber of Commerce: "Admitted that many of the autocratic measures taken have been taken as measures of emergency . . . the fact remains that the danger is great that they will remain in existence long after the emergency has passed. . . . The economic nationalism which is hampering international relations today is only in part the result of measures of emergency and self-defence"

•

RURAL ELECTRIFICATION

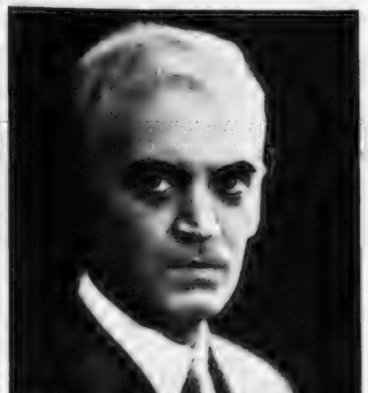
JOHN C. PARKER, vice-president of the Consolidated Edison Company of New York: "A profound conviction of the value of extending to the farm the power use which has been so common in industry may run away with itself. The economic welfare of the rural regions is much more intimately concerned with soil quality and selection of strains . . . and with market problems and transportation than with the application of mechanical power. Economic, social and political injuries may result"

RESERVE NOTE SECURITY

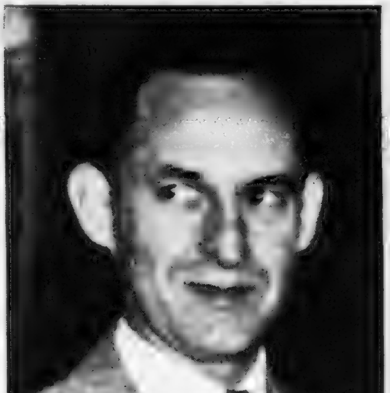
MARRINER S. ECCLES, Chairman of the Federal Reserve Board, in testifying before the Banking and Currency Committee of the House of Representatives, said that the Federal Reserve System might be responsible for starting a "disastrous deflationary development" unless it were authorized to continue to use Government obligations as collateral security for Federal Reserve notes. In the absence of that power, he said it might be compelled to adopt "a restrictive credit policy"

RAILROAD DEBTS

R. V. FLETCHER, general counsel of the Association of American Railroads, says that solvent railroads should not be forced to repudiate their debts under the guise of reorganizing their capital structures nor should unnecessary increases of operating costs be placed upon railroads by legislation; and that the total par value of outstanding stocks and bonds of the railroads is $5,000,000,000 less than the actual value of the property upon any recognized basis of valuation



CONSOLIDATED EDISON PHOTO



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Returns and Many of Them

AS usual, on March 15, Federal income tax payments become due. This perennial custom has been the fashion for a good many years. In 1812 an income tax was advocated in this country, but no such law was passed until 1862. The cartoon at the right, drawn in 1870, refers to this enactment, which was in force until 1872. Twenty-two years later, in the Wilson Tariff Bill of 1894, another income tax law was passed, but in May of that year the Supreme Court declared it unconstitutional because, although it was a direct tax, it was not apportioned among the states according to population. This difficulty was overcome by adoption of the 16th Amendment, February 25, 1913. A Federal income tax law has been in operation since October of that year, a fact which accounts for the regiment of files in the picture below (those shown are merely part of the overflow). In the open cases, shown in the lower picture, are about 30,000 of the millions of returns that taxpayers have sent on March 15 through the years.

THE INCOME TAX.

"I'll tell you what it is, UNCLE SAM, when your bread is buttered with TAX as thick as this, it's pretty hard to swallow."

T. F. HEALY COLLECTION

HARRIS & EWING

HARRIS & EWING

FEIGLEY

Play Ball

BANKERS attending the Eastern Conference on Current Banking Methods and Policies ended their session with a dinner and some talk about baseball (as described in the clipping at the left). At the speakers' table, in the picture above are, RIGHT TO LEFT: Fred N. Shepherd, J. K. McKee, Branch Rickey, A. E. Braun, Tom K. Smith, F. F. Brooks, Philip A. Benson, L. N. Murray and Arthur B. Taylor. Below is a view of part of the dinner meeting audience.

BRANCH RICKEY LINKS BANKING AND BASEBALL

700 Financiers Hear Speech as Climax To Conclave.

Baseball and banking have much in common, Generalissimo Branch Rickey of the St. Louis National baseball club—the "Cards" or the "Gas House Gang" to you, if you're a dyed-in-the-wool fan—told 700 hilariously dignified bank executives at a dinner in the William Penn Hotel last night, crowning feature of a two-day regional conference of the American Bankers' Association.

"Dizzy" Dean could give pointers to many an aspiring embryo banker about more things than curving a spheroid or circling a diamond, the financial miracle man of the big leagues solemnly asserted. He refused to state how many big Eastern banks he would take in a trade for his garrulous right-hander but indicated plainly he had picked up some pointers of interest to the men of money in his dealings with rival magnates and stellar performers.

Three Points Emphasized.

Rickey was introduced by Toastmaster Tom K. Smith, ABA president and head also of the Boatmen's National Bank of St. Louis. In his serious remarks, the genial vice president and general man-

FROM THE PITTSBURGH POST-GAZETTE

FEIGLEY

The West's Forum

THE second in the Association's series of forum discussions of banking at Portland, Oregon, February 25 and 26. Below and on the following two pages are pictures of the speakers at that meeting and their subjects. The next forum will be held in Atlanta, Georgia, March 25 and 26.

PHOTOS BY HARRIS & EWING

Charles E. Martin, head of the Department of Political Science, University of Washington, Seattle—"My Faith in China"

John N. Edlefsen, vice-president, United States National Bank, Portland—"Research in Costs and Methods of Operation"

Andrew Price, president, National Bank of Commerce, Seattle—"Research on Federal Lending Agencies, Postal Savings and Bank Chartering"

A. G. Fleming, vice-president, Old National Bank & Union Trust Co., Sunnyside, Washington—"Satisfied Customers and Service Charges"

C. E. Jenks, Superintendent of Banks, State of Washington, Olympia, Washington, who will speak on "Chartering of Banks"

Left, J. W. Spangler, vice-president, Seattle-First National Bank, Seattle—"How One Bank Met Its Public Relations Problems"

PHOTOS BY HARRIS & EWING

Right, C. W. Clarke, executive vice-president, Pacific National Bank, Seattle—"Loan Administration Policy"

Blaine B. Coles, vice-president, First National Bank of Portland—"Preserving the Association Between Banking and Trust Business"

Below, T. P. Cramer, Jr., Secretary, Oregon Bankers Association, Portland—"Bank Insurance and Crime Protection"

Left, Hugh L. Clary, vice-president, Bank of America N. T. & S. A., San Francisco—"Budgetary and Expense Control"

Right, Ross P. Williams, assistant vice-president, University National Bank, Seattle—"Banking Education and Public Relations"

PRESIDENT SMITH:

"This conference continues the Association's program of meetings in various sections of the country to provide bankers with the opportunity for forum discussion on banking problems, methods and policies."

Tom K. Smith, president, Boatmen's National Bank, St. Louis—"Why Bankers Should Counsel Together"

John T. Cooper, vice-president, Security-First National Bank of Los Angeles, —"The Place of F H A Mortgages in Savings Banks and Savings Departments"

Gardner Turrill, assistant cashier, the California Bank, Los Angeles—"Banking Talks to Schools and Clubs"

W. T. Triplett, vice-president, Seattle-First National Bank, Spokane & Eastern Division, Spokane—"Investment Policy"

F. P. Champ, president, Cache Valley Banking Company, Logan, Utah—"The Bankers' Part in Building an Agricultural Community"

Henry H. Christensen, assistant vice-president, American Trust Company, San Francisco—"Personal Loan Departments in Banks"

...ERMAN, PRESIDENT
...TON, VICE PRESIDENT

14193

FIRST NATIONAL BANK IN WAYCROSS

CAPITAL $100,000.00

WAYCROSS, GA.

December 11, 1936

Mr. George L. McCarthy, President
Recordak Service, Inc.
350 Madison Ave.
New York, N. Y.

Dear Mr. McCarthy:

We began using the Recordak in our transit department in July of this year and on the first of September we installed the system in our bookkeeping department.

When we were considering installing the Recordak, we felt that it would be entirely too expensive for an institution as small as ours, and delayed its installation for a long time, but I am pleased to say that our belief was entirely wrong. Now I do not see how a bank can afford not to use the Recordak. In addition to being efficient and economical, it gives us a thorough source of satisfaction to have the knowledge of security for our bank that it affords.

We have had many inquiries and visits from interested bankers and it has been a pleasure for us to explain the many advantages and urge them to install this system.

Yours very truly,

E M Bazemore

Cashier

"...Do not see how a bank can afford not to use the RECORDAK"

...and hundreds of other banks of moderate size agree. They appreciate the complete records, the protection against alterations and forgeries, the film records of customers' checks. They stress the increased facilities for service to customers. And turning to a dollars and cents appraisal of Recordak's advantages, they report savings up to 45% net on per item costs, up to 50% on supplies, up to 90% in storage space. Write for "Cornerstone," booklet of actual letters from Recordak users, small banks as well as large. Recordak Corporation (subsidiary of Eastman Kodak Company), 350 Madison Avenue, New York City.

Over 70% of all Recordak installations are in small community banks

Conferences and Research

THE third in the series of regional conferences sponsored this year by the American Bankers Association takes place March 25 and 26 at the Atlanta-Biltmore Hotel, Atlanta, Georgia. Like its predecessors at Pittsburgh and Portland, Oregon, the Conference will provide forum discussions on current methods and policies in various branches of banking activity.

The program, as available at the time of going to press, follows:

ATLANTA-BILTMORE HOTEL

The Ballroom

THURSDAY, March 25, 9:30 A.M. Call to order by J. S. Kennedy, General Chairman, Atlanta Committees, and vice-president, First National Bank, Atlanta; WHY BANKERS SHOULD COUNSEL TOGETHER (20 minutes), President Tom K. Smith; CHARTERING OF BANKS (20 minutes), Gurney P. Hood, Commissioner of Banks, Raleigh, North Carolina; BANK INSURANCE AND CRIME PROTECTION (20 minutes), W. B. Gladney, vice-president, Bastrop Bank & Trust Company, Bastrop, Louisiana; THE BANKERS' PART IN BUILDING AN AGRICULTURAL COMMUNITY (20 minutes), H. Lane Young, executive vice-president, Citizens & Southern National Bank, Atlanta; discussion following each topic.

THURSDAY, 2:15 P.M. BANK MANAGEMENT. Call to order by President Smith; LOAN ADMINISTRATION POLICY (20 minutes),

Pictures of the speakers at the Portland Forum appear on pages 46, 47 and 48

P. D. Houston, chairman of board, American National Bank, Nashville; INVESTMENT POLICY (20 minutes), W. W. Woodson, president, First National Bank, Waco, Texas; BUDGETARY AND EXPENSE CONTROL (20 minutes), J. L. Dart, comptroller, Florida National Bank, Jacksonville, Florida; INCOME FROM BANKING SERVICES (20 minutes), J. F. Flournoy, Jr., vice-president, Whitney National Bank, New Orleans; discussion following each topic.

THURSDAY, 7:30 P.M. MANAGERIAL PROBLEMS IN PUBLIC RELATIONS AND EDUCATION. Call to order by President Smith; BANKING TALKS TO SCHOOLS AND CLUBS (15 minutes), J. A. Reagan, vice-president and cashier, Peoples Bank & Trust Company, Rocky Mount, North Carolina; BANKING EDUCATION AND PUBLIC RELATIONS (15 minutes), R. M. Johnson, assistant cashier, Deposit Guaranty Bank & Trust Company, Jackson, Mississippi; HOW ONE BANK MET ITS PUBLIC RELATIONS PROBLEMS (20 minutes), Robert V. Fleming, president, The Riggs National Bank, Washington, D. C.; THE RADIO IN PUBLIC RELATIONS (20 minutes), demonstration by members of Atlanta Chapter, American Institute of Banking; discussion following each topic. (CONTINUED ON PAGE 52)

CONVENTIONS

A.B.A. Meetings

Mar. 11–12	Spring Savings Conference, Waldorf-Astoria, New York, N. Y.
Mar. 25–26	Regional Conference, Atlanta-Biltmore Hotel, Atlanta, Georgia
Apr. 18–21	Spring Meeting of Executive Council, The Arlington Hotel, Hot Springs, Arkansas
June 7–11	American Institute of Banking, Hotel Lowry, Saint Paul, Minnesota
June 22–July 3	Graduate School of Banking, Rutgers University, New Brunswick, New Jersey
Oct. 11–14	A.B.A. Convention, Statler Hotel, Boston, Massachusetts

State Associations

Apr. 23–24	New Mexico, Santa Fe
May 4–5	Arkansas, Hotel Marion, Little Rock
May 4–5	South Carolina, Charleston
May 5–6	Indiana, Indianapolis
May 6–7	North Carolina, Carolina Hotel, Pinehurst
May 6–7	Oklahoma, Oklahoma City
May 10–12	Missouri
May 11–12	Mississippi
May 12–14	Kansas, Wichita
May 18–20	Texas, Gunter Hotel, San Antonio
May 20–22	New Jersey, Traymore Hotel, Atlantic City
May 24–26	Illinois, Chicago
May 26–28	Pennsylvania, Hotel Traymore, Atlantic City, New Jersey
May 27–31	District of Columbia, Greenbrier, White Sulphur Springs, West Virginia
May 27–June 1	New York, Aboard S.S. Washington sailing to Bermuda
June 2–3	South Dakota, Rapid City
June 10–12	Massachusetts, New Ocean House, Swampscott
June 14–15	Oregon, Pilot Butte Inn, Bend
June 17–18	Washington, Bellingham
June 18–19	Colorado, Stanley Hotel, Estes Park
June 21–22	Utah
June 24–26	Virginia and West Virginia (Joint Convention), the Greenbrier, White Sulphur Springs, West Virginia
June 24–27	Michigan, Grand Hotel, Mackinac Island
Sept. 9	Delaware, Rehoboth

Group Meetings

Mar. 16	Arkansas, Group 4, El Dorado
Mar. 18	Arkansas, Group 2, Heber Springs
Mar. 19	Arkansas, Group 1, Marion
May 31	Arkansas Junior Bankers Educational Conference, Russellville

Other Organizations

Mar. 19–20	Convention of Great Lakes Region, National Association of Real Estate Boards, Kentucky Hotel, Louisville, Kentucky
Apr. 9–10	Convention of North Central Region, National Association of Real Estate Boards, Gontenelle Hotel, Omaha, Nebraska
Apr. 28–30	National Association of Mutual Savings Banks, Waldorf-Astoria Hotel, New York
May 6	New Jersey Savings Banks Association, Montclair Golf Club, Montclair, New Jersey
May 6–8	National Safe Deposit Convention, Willard Hotel, Washington, D. C.
May 14–15	Convention of Central Atlantic Region, National Association of Real Estate Boards, Biltmore Hotel, New York, N. Y.
Sept. 13–16	Financial Advertisers Association, Syracuse, New York
Oct. 11–14	Annual Meeting of the National Association of Bank Auditors and Comptrollers, Boston, Massachusetts
Oct. 18–23	Annual Convention, National Association of Real Estate Boards, The William Penn Hotel, Pittsburgh, Pennsylvania
Oct. 20–21	Savings Banks Association of the State of New York, The Greenbrier, White Sulphur Springs, West Virginia

CALENDAR—Continued

FRIDAY, March 26, 9:30 A.M. Call to order by President Smith; PERSONAL LOAN DEPARTMENTS IN BANKS (20 minutes), Merle E. Robertson, president, Liberty National Bank & Trust Company, Louisville, Kentucky; THE PLACE OF F.H.A. MORTGAGES IN BANKS (20 minutes), Oscar Wells, chairman of board, First National Bank, Birmingham, Alabama; PRESERVING THE ASSOCIATION BETWEEN BANKING AND TRUST BUSINESS (20 minutes), Richard G. Stockton, vice-president, Wachovia Bank & Trust Company, Winston-Salem, North Carolina; discussion following each topic.

FRIDAY, 2:15 P.M. A.B.A. ACTIVITIES IN BANKING STUDIES AND RESEARCH. Call to order by President Smith; UTILIZATION OF RESEARCH BY THE AMERICAN BANKERS ASSOCIATION (20 minutes), President Smith; RESEARCH ON FEDERAL LENDING AGENCIES, POSTAL SAVINGS AND BANK CHARTERING (20 minutes), F. F. Florence, member, Committee on Banking Studies, A.B.A. (Republic National Bank & Trust Company, Dallas, Texas); RESEARCH IN COSTS AND METHODS OF OPERATION (20 minutes), James H. Penick, member, Committee on State Bank Research, State Bank Division, A.B.A. (W. B. Worthen Company, bankers, Little Rock, Arkansas); discussion following each topic.

SUBSCRIPTION DINNER MEETING

An informal subscription dinner meeting will be held in the hotel ballroom on the evening of Friday, March 26.

SAVINGS CONFERENCE PROGRAM

FOUR general sessions, two luncheon meetings, a forum for managers of school savings departments, and the annual banquet provide a varied program for bankers attending the Spring Savings Conference sponsored by the Savings Division, American Bankers Association, at the Waldorf-Astoria, New York, on March 11 and 12.

The program for the first day of the general conference presents these speakers and subjects: "Monthly Payment Credits and Personal Loans", Warren S. Shepard, vice-president, Worcester County Trust Company, Worcester, Massachusetts; "Trend of Interest Rates", Marcus Nadler, assistant director, Institute of International Finance, New York; "Savings Banking Under Changing Conditions", Roy R. Marquardt, assistant vice-president, First National Bank, Chicago; "Bank Officers Back in School", Edgar A. Craig, treasurer, Dorchester Savings Bank, Dorchester, Massachusetts; "Popularizing Savings", P. R. Williams, vice-president, Bank of America, N.T. & S.A., Los Angeles; "Supervision of Banks", Carl K. Withers, New Jersey Commissioner of Banking and Insurance.

The program for the second day's business sessions is as follows: "Government Activity in the Lending Field", Wood Netherland, Chairman, Committee on Banking Studies, American Bankers Association; "Uniformity of Interest Rates and Regulation", George J. Bassett, president, Connecticut Savings Bank, New Haven; "The Place of F.H.A. Mortgages in Savings Banks and Savings Departments", Frank W. Sutton, president, First National Bank, Tom's River, New Jersey; "What Is a Reasonable Program in Revamping the New York Moratorium on Mortgages?", Pliny W. Williamson; "Banking Does Change", John J. Driscoll, Jr., Driscoll, Millet and Company, Philadelphia; "How to Capitalize the Thrift Influence under the Social Security Program", W. R. Williamson, actuarial consultant, Social Security Board, Washington, D. C.; "What Do We Know About Municipal Bonds?", Charles F. Aufderhar, Jr., Savings Banks Trust Company, New York; "What Securities May Be Used for the Investment of Bank Funds?", Lindsay Bradford, president, City Bank Farmers Trust Company, New York.

The forum, a new Conference feature, will take up various phases of school savings activity, including operating methods, thrift education, publicity, and methods of stimulating deposits. These discussions, scheduled for March 12, have been divided into three sections under the general headings: "Shortest Methods of Handling School Savings Collections and Deposits", "Thrift Education", and "Making School Savings Profitable".

Interesting speakers will address the luncheon meetings and the banquet. The latter takes place on the evening of March 11.

POSTAL SAVINGS STUDY

A RESOLUTION asking Congress to amend the Postal Savings Act of 1910 "to bring the administration of the system again within the purpose governing its establishment, namely, to furnish supplementary and non-competitive savings facilities", has been adopted by the Administrative Committee of the American Bankers Association.

This action, announced by President Tom K. Smith, was the result of a survey of the postal savings system made by the Association's Committee on Banking Studies. The survey, recently published in book form, is an exhaustive study, including statistical material and charts.

Speaking before the Regional Banking Conference at Pittsburgh, Wood Netherland, Chairman of the Committee on Banking Studies, presented a summary of the Committee's findings.

"The study made by the Committee of the circumstances attending the enactment of the Postal Savings Act," said Mr. Netherland, "discloses that the principles underlying the establishment of the postal savings system were: (1) To furnish bankless communities with savings facilities; (2) to operate the system as a supplement to banks and not in competition with them; (3) to redeposit, insofar as possible, the funds received through the postal savings system in banks located in the same communities where the funds originated; (4) to guarantee the safety of the savings of the individual with small means.

"The findings of the Committee based on the studies exhibit the digressions in the operation of the postal savings system from the principles underlying its establishment."

Four findings were made. Mr. Netherland reported them as follows:

1. "Postal savings depositories generally are not established in bankless communities, despite the fact that the aim of the Postal Savings Act was to furnish such communities with savings facilities."

2. "The postal savings system is in direct competition with banks, despite the fact that one of the principles upon which the passage of the Postal Savings Act was conditioned was that the system should be supplemental rather than competitive in nature."

3. "The disposition of the postal savings funds is not that planned by the Congress which established the system."

4. "The savings facilities offered by banks today are more adequate than in 1910."

After stating each finding, Mr. Netherland offered evidence developed by the Committee to support it.

INCOME TAX RULING

THE Trust Division has sent an income tax memorandum to members stating that banks and (CONTINUED ON PAGE 54)

CALENDAR—Continued

trust companies making income tax returns as fiduciaries need not give detailed information on interest received for the year 1936, according to a ruling by the Bureau of Internal Revenue. The memorandum says:

"On January 15 the Trust Division, by letter, made representations to Commissioner of Internal Revenue Guy T. Helvering requesting that banks and trust companies, when preparing information returns on Form 1041 and tax paying returns on Form 1040, be relieved from the requirement of furnishing detailed lists of taxable interest reported on such returns for the calendar year 1936. Among other things, the letter set forth the burden of additional work, expense, and difficulty which would have been placed upon fiduciaries by the requirement. In view of the facts submitted it was respectfully requested that the requirement for furnishing detailed lists of taxable interest reported on information return, Form 1041, and on tax return, Form 1040, to be filed by fiduciaries for the calendar year 1936, be waived.

"On January 19 the following telegram was received: 'Reference letter 15th banks and trust companies making returns on forms 1040 and 1041 as fiduciaries need not give detailed information regarding interest received for calendar year 1936.'"

The Division's communication to members pointed out that this ruling is applicable in the preparation of March 15 returns.

CHECK PROTECTION

A LEAFLET entitled "Thumbprints to Stop Bad Check Passers", for distribution among a bank's customers, has been prepared by the Association's Protective Department to aid in popularizing the practice of requiring thumbprints beneath the endorsements of checks presented by strangers.

Unless something is done to stop worthless and forged checks this form of crime will continue to cause heavy losses to both banks and depositors, the leaflet says. It is estimated that more than 95 per cent of these losses are borne by individuals, merchants, hotels, motor service stations and smaller industries.

The Department recommends as a precaution that the addition of a single print of the right thumb underneath the endorsement on a check should be made a requirement before cashing or accepting in trade checks from persons not well known.

UNION BANK & TRUST COMPANY
FORT WORTH
TEXAS

DAN E. LYDICK
J. G. GRIFFITH

C. M. PEARCE
D. B. GILLILAND

National Cash Register Comoany
Dayton, Ohio

Gentlemen:

Answering the inquiry of your local manager, Mr. R. E. Winger, we are advised that we have purchased one liability ledger posting machine and three individual ledger posting machines, all Nationals.

We have had these machines in use for some time and find that they give excellent service, are well suited to our needs, and we are more than pleased with their operation.

Yours very truly,

Dan E. Lydick, President

"WELL SUITED TO OUR NEEDS"

Says MR. DAN E. LYDICK, *president of the Union Bank and Trust Company, Fort Worth, Texas.*

Send for National's Payroll Plans that provide records which conform with Social Security Legislation.

ONE of the most satisfactory features of the National Posting Machine is its flexibility. Banks of all types and sizes find this machine ideal for their requirements. When the machine is not being used on depositor's ledgers and statements, it may be used for various kinds of proof and transit work. It is perfectly adapted for many kinds of bank bookkeeping.

Our local representative can tell you more fully of the advantages of a National System. Get in touch with him. Or write us direct, if you prefer.

The National Cash Register Co.
DAYTON, OHIO
ACCOUNTING MACHINE DIVISION

Cash Registers • Typewriting-Bookkeeping Machines
Posting Machines • Bank-Bookkeeping Machines
Check-Writing and Signing Machines • Analysis Machines
Postage Meter Machines • Correct Posture Chairs

This Year's Financial Advertising

INCREASED advertising appropriations for 1937 were reported by 43 of the 97 financial institutions which replied to a questionnaire sent by the Financial Advertisers Association to its members. This is 44.3 per cent of the reporting institutions. Last year 32.14 per cent of the 84 replies received to a similar question said that the advertising budget was to be larger in 1936 than in 1935.

A VARIETY OF MEDIA

IN 53 institutions the expenditure will remain the same as last year, while one is making a 10 per cent decrease. The most widely used media are to be newspapers, direct mail, outdoor advertising, radio, lobby and window posters, national publications, sectional publications and car and bus cards.

Replies to the questionnaire disclosed a variety of promotional plans for 1937. Sixty-one of the institutions are conducting staff meetings on customer relations (62.8 per cent against 53.7 per cent last year). Sixty-two said that officers would make regular calls on customers, while 46 are providing educational talks before schools, clubs and civic organizations. One bank plans to invite classes from commercial and high schools to visit it.

A VARIETY OF SUBJECTS

ANSWERING a question as to what would be advertised, the association members named a long list of banking and financial services. In the loans category, the classifications mentioned in the largest number of replies were commercial, F.H.A. (Titles I and II), and personal. In general banking, the most emphasis is to be placed on institutional and educational advertising, closely followed by promotion of personal checking and commercial checking services. In trust business, particular stress is to be placed on executorships, trusts under will and living trusts, while savings advertisements will emphasize general themes, Christmas and vacation clubs, and save-by-mail plans.

Some of the reporting banks commented on their plans for the year. Here are a few excerpts:

"One of our best advertising media, which costs us practically nothing, is two display windows in which coins, pictures, relics, etc., of local interest are displayed. Windows are changed each week."

"We, as a new bank, have been spending a limited amount for advertising. This year we plan to triple our appropriation."

"We shall reduce our newspaper space by about 40 per cent and substitute our own monthly publication to be distributed in local areas."

"Our promotion plans are becoming more direct selling and merchandising, and less general."

"Appropriation will be increased 100 per cent, due to remodeling of banking room and realization that sufficient advertising has not been done."

"We find a pleasant and profitable reaction to officers' calling on customers personally."

"We shall make a local bank survey through questionnaires, obtaining from depositors suggestions for improvement of service."

The association has more recently sent to its members a questionnaire on collection department activity charges.

Real Estate Advertising Sells

NEARLY $13,000,000 of "other real estate" properties have been sold in the last four years by a bank in the Middlewest, at an average advertising cost of $8.67 per $1,000 of sale.

Here is the record:

	Cost of Advertising per $1,000 Sale	Annual Sales
1933	$13.54	$1,026,139
1934	12.81	1,272,401
1935	4.96	3,205,086
1936	3.39	6,094,175

Naturally, the local daily newspapers received the bulk of the advertising, which was the specific listing of properties and descriptions, sometimes accompanied by photographs.

In the early years of the sales and advertising effort, listings were less frequent, but institutional copy stressing the enduring value of real estate for investment and home ownership was used. A determined effort was also made to enlist the cooperation of real estate brokers. While the bank's "other real estate department" had its own sales force, it found that real estate brokers were largely instrumental in bringing in leads and consummating sales, and it desired to have the cooperation of this group. All advertisements of any kind during these earlier years included the line, "We cooperate with your real estate broker."

This advertising had a good effect on the real estate market in general.

Another factor in the sales record has been the use of advertisements in the foreign language, suburban and relatively smaller newspapers. Depending upon the locations of the properties for sale, German, Bohemian, Hungarian, Slovenian, Polish, Jewish and Italian newspapers were used.

It has long been demonstrated that most foreign-speaking groups bring with them to this country the Old World virtue of thrift. These people have proved to be likely prospects.

In 1936, the average selling price of all property was $4,695, the average down payment was $993 and the ratio of down payment to total price was 21 per cent.

In 1936, 48 per cent of all the properties offered for sale were sold. This percentage in 1935 was 34 per cent.

F.A.A. BOARD MEETS

Thomas J. Kiphart, Cincinnati, at the F.A.A. board of directors' meeting at the Waldorf-Astoria, New York, on February 11

Talk Plain English

THE importance of this simple though pointed statement was brought to the attention of a young bank executive in a midwestern city bank recently by an old customer of the institution.

This customer, who was familiar with the various services of the bank and had done business with it for many years, was motivated to make this suggestion as the result of an incident that had occurred while he was negotiating a loan at the bank's discount department. Although he was a frequent borrower, this customer admitted that he did not know exactly what had happened or what he had signed. This, he said, was due to the use by the lending officer of a particular term, indeed very familiar to the bank employee, but to the customer just so much Greek.

A reminder to those tellers and others of the bank's staff who contact the public, not forgetting the executives, would be of great benefit in eliminating this bad habit prevalent in many banking institutions. The use of clear, simple language, coupled with an understanding patience in our customer relations, would reap dividends for both the bank and the employee.

PHIL E. DONALDSON
Kansas City, Missouri

F.A.A. BOARD MEETS

William Neal, Winston-Salem, N. C., first vice-president of the F.A.A., as he attended the association's directors' meeting

A Small Quick Credit File

A SUBJECT which always seems to invite much interested discussion at group meetings of bank representatives of the smaller institutions is the most satisfactory method of filing credit information. That a bank cannot possibly know too much about its borrowing customers was brought home very forcefully, and in some instances very painfully, during the liquidation period of a few years back. Data should be so centralized and concentrated that in a few moments time the inquiring official can avail himself of these valuable records.

The most generally used and satisfactory method of accumulating credit information is to set up a file especially for this purpose. Folders should be headed up for each individual borrowing name, and names should in turn be filed in alphabetical order. These folders should be of rather substantial material and should open like a book. The data should be fastened in the center at the top of the right side of the folder as it is opened. Some of the more important items which can be filed in these folders are as follows: financial and operating statements, spread statement sheets, comparative statements of important operating ratios, correspondence between the borrower and the bank, officers' memoranda, agency reports, general information and miscellaneous data. This list may be added to or reduced to suit the type of borrower and the individual bank's needs.

Periodically this general credit file should be revised, with more current statements and other information being added. The frequency of this operation varies in banks from periods of six months to a year. A small card tickler system can be used very advantageously in facilitating this work. A card should be headed for each borrower and the month or months designated in which the file is to be revised and brought up to date. These cards are then filed in alphabetical order according to months.

FIVE YEARS AT A TIME

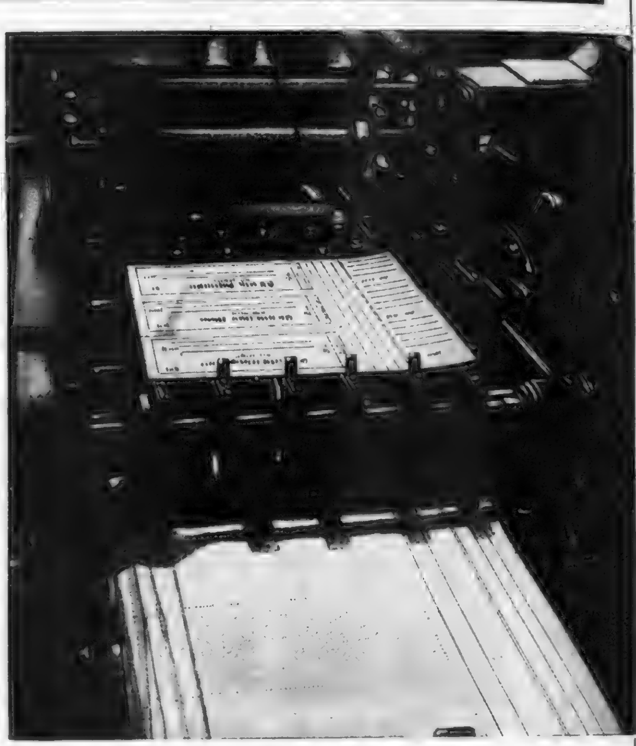
AN auxiliary credit record should be kept which shows the history of the deposit balances carried by the borrowers. This can be very efficiently recorded on a card which has the months of the year listed down the left margin and columns for as many years as the width of the card will permit. A card large enough to accommodate four or five years should be used.

At the close of each month these cards should be turned over to the individual ledger bookkeeper to post the approximate average balance carried by each borrower. It is not necessary that these averages be actually figured; a glance at the running balances for the month is sufficient to arrive at an approximate average. Instead of showing the average balance for the month, some institutions record the high and low balance.

However, in banks where accounts are analyzed monthly for service charge purposes these cards can be of a somewhat more elaborate form. They might show in addition to the average ledger balance the average collected balance and the net profit or loss which the bank realized on the account. It should only be necessary to copy this information from the analysis record. These cards should be filed alphabetically, as to borrowers in a separate file in the credit department. J. W. M.

IMPRINTING: *The word no Dictionary can define*

Applying ink to paper is only one of eighteen steps in imprinting.



WHAT do you expect to receive, in return for your agreed price, when you buy imprinting on checks? ¶Here are some of the things *we* mean by imprinting: specially-built presses, carefully selected type faces, binding equipment made just for this work, numbering and cutting machines—all of which a stationer must have before he can begin to manufacture, and all of which means an investment of many thousands of dollars. ¶Checks are wrapped and packed properly, stored and guarded against fire, damage, and loss or pilferage for improper use. Each book of checks is proof-read and examined at least six times before being shipped; made uniform in quality, even on rush orders; and most of all, created with *specialized experience and craftsmanship.* ¶ If all this goes into your checks, you and your customers are buying *service,* as well as *imprinting.* And the chances are that you buy from a member of the Institute of Bank Stationers.

THE INSTITUTE OF BANK STATIONERS

120 WALL STREET, NEW YORK

Several Bookkeeping Economies

ONE of the many details that are determining factors in the cost of operating a bookkeeping (checking) department is the size of the ledger and statement sheets. On close analysis it will be found that the size of these work sheets largely affects the efficiency of the entire operation.

Briefly, the larger the sheets, the greater the stationery cost, the greater the filing costs, the slower the machine operation, the greater the work space, and finally the larger the postage bill.

Many bank men have either assumed or inherited the idea that a three check position plus a space for the old balance pick-up must necessarily determine the size of the ledger and statement sheets; consequently we find many banks using a ledger that averages 11¾ inches across.

SAVING OBVIOUS HERE

IN the first place, when the daily activity per account is analyzed it will be found that not less than 85 per cent and often 90 per cent or more of the accounts can be handled nicely with a two check position, assuming that lists are made on and over a given number of checks. Fifteen is a good minimum.

The "old balance" pick-up belongs to the journal roll or sheet. It should have no place on the ledger or statement sheets, particularly since it is rare indeed that one bookkeeper will counter the error of another on this work. Operating 40 ledgers over a period of two years has not produced half a dozen such errors that ran to a trial, and when mistakes do happen they are not difficult of solution.

Eliminating the third check position and the space for the old balance gives us a ledger that measures 7⅛ inches across. The depth is of no material difference, although 9½ to 10 inches is practical. Filing facilities should govern the depth.

This reduced size immediately cuts the statement cost, even though some accounts may run more ledger sheets over a given period. Next, and more desirable from an economical standpoint, is the time reduction in the various parts of a bookkeeper's operation. Being smaller and more rigid, the sheet moves more easily in the trays and speeds the selection of accounts.

The insertion or feeding to the machines is much faster, since no "flappiness" develops; in fact, it soon becomes a fast one-hand operation. The work of the machine is automatically speeded because in each complete posting there is less carriage travel and, lastly, the motion of transferring the sheet from the machine to the tray is also speeded.

Separately, these small bits of time-saving mean little. Collectively, however, they are very important and quite valuable, particularly since they are repeated over and over again. Often they mean a difference of one or more additional ledgers, depending upon the size of the bank. In our own case, these small details figure prominently in a saving of eight ledgers out of 48.

If the posting to the ledger is the "dual" of a bookkeeping plan, then we have squeezed it to an extent where there is as little or possibly less "dual" than in other plans of bookkeeping.

L. W. HAYS
Assistant Cashier, Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia.

Trends in Loans and Investments

CHANGES in the earning powers of commercial banks and adjustments made necessary in their operating methods by altered relationships with business and government are analyzed in a report by the Economic Policy Commission of the American Bankers Association. The report covers developments before and after the beginning of the depression, with particular reference to the effects of Federal Government financing since 1933.

Leonard P. Ayres, vice-president of the Cleveland Trust Company, and Chairman of the Commission, in a foreword says:

"The data in this report seem to justify the conclusions that probably for a long time to come the proportion of commercial bank earning assets which will be invested in securities will continue much higher than before the depression and, while the volume of commercial loans will increase as business recovery advances, it seems unlikely that banks as a whole will soon be able to return to their old practice of having about half of their earning assets in commercial loans.

"The Commission does not view these conditions with apprehension, but deems them important. They call for modifications in banking practices. The expenses of bank operation will need to be readjusted to the changed income producing power of earning assets. Also more attention should be devoted to the problems of the wise handling of investment accounts."

The findings of the Commission's report are summarized as follows:

"In 1923 over 70 per cent of the aggregate loans of the commercial banks consisted of commercial credit and less than 30 per cent of collateral and real estate loans. In 1929 commercial loans made up only about 53½ per cent. Their investments increased from $10,000,000,000 to $13,000,000,000. Grouping real estate loans with collateral loans and investments, as against the element of commercial credit, this composite group increased from 49 per cent of total earning assets to over 61 per cent.

"These changes reduced materially the liquidity of the earning assets of the commercial banks. Granting certain

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UNIVERSITY HEAD

Dr. Charles Seymour (below) has been designated to succeed Dr. James Rowland Angell as president of Yale University at the end of the current school year

ACME

shortcomings in bank management, the predominant factors causing these changes arose from irresistible economic forces that originated outside of banking.

"One was the alteration in the financial habits of industry and trade by which a large part of their current operations were financed, not through commercial loans, but through capital transactions. Increased efficiency of transportation caused a considerable reduction in time-volume of borrowing required from the banks to move a given amount of manufacturing and mercantile business.

"It is estimated that in 1923, of the total formal credit structure of the United States, commercial loans of banks constituted about 18 per cent. By 1929 they constituted only about 12 per cent.

"The banks made every endeavor to maintain the liquidity of their portfolios through the granting of the sound commercial loans that were offered, absorbing virtually the total output of open market commercial paper and increasing materially the volume of banker's acceptances in use. They also participated in security issues along what appeared to be sound lines, constituting a proper opportunity for increasing their financial usefulness and earnings.

"A new impact of change has been felt in the period since 1929. This movement reduced the total earning assets of the commercial banks and further impaired their liquidity. From 1929 to 1933 the percentage of their commercial loans dropped from nearly 39 per cent to about 25½ per cent. Since 1933 a re-expansion has occurred in their total earning assets, but loans on real estate and on collateral plus investments accounted for all of this increase. Commercial loans dropped further, constituting by 1935 only about 20½ per cent of the total.

FEDERAL BOND HOLDINGS

"FINANCING of American industry and trade by corporate issues also underwent tremendous shrinkages. At the same time there occurred a tremendous increase in Federal Government financing. The increases in the investments of the banks have arisen mainly from their purchases of securities issued in the course of this Government financing. In 1923–32 their holdings of Government bonds averaged about 31 per cent of their total investments. From 1933 to 1935 they averaged over 55 per cent. Their holdings of this class of security rose from $3,740,000,000 in 1929 to $10,400,000,000 in 1935. In addition they held a large volume of obligations of Govern-

SECURITIES SELLERS

Frank Dunne, partner in Dunne & Co., has been elected president of the New York Security Dealers Association

BLANK-STOLLER

ment lending agencies for which the Government is contingently liable through various guarantees as to principal and interest.

"Total deposits of the commercial banks expanded from $26,000,000,000 in 1933 to nearly $35,000,000,000 in 1935. This was not attributable to direct loans to industry and commerce by banks, for such loans showed a large contraction. The main factor was increase in the public debt. The proceeds of Government borrowing from banks and other investors were disbursed for relief and reconstruction expenditures and in loans to a diversity of interests through Government checks which came back to the banks and created deposits.

"Concurrently with these Government activities, there continued to be an acute lack of commercial loans arising from private industry and trade as well as a dearth of new corporate financing in the capital markets. As a result of these various circumstances the estimated aggregate commercial loans of the commercial banks constituted a little less than 5 per cent of the nation's total formal credit structure.

YIELD ON EARNING ASSETS

"SINCE 1929 there have been marked decreases in the yields on all classes of bank earning assets. A rough index shows that the composite return in 1929 was 5.76 per cent. In 1933 it was 4.11 per cent. By 1935 it was down to 3.11 per cent. In this latter period there was also, in respect to the investments of the commercial banks, a marked concentration in United States Government securities which return the lower yields.

"These many changes seem to indicate the necessity of commercial banking supplementing earnings from traditional classes of loans and investments with income from other forms of financial services. There is evidence of a more general application of service charges, expansion in personal loan activities, increased financing of instalment sales and more attention to loans on real estate.

"It is our opinion that it would be preferable and beneficial that the economic activities of the nation should return to a larger extent to methods again productive of commercial credit. However, in view of the developments described, it is wise for the banks to adjust themselves to operations which will give them satisfactory earnings on the basis of the nation's business as it is now being conducted."

Father Was Wrong

IN a large New York bank's mail one morning was this letter, addressed to the president:

"Dear Sir,

"Did you ever save stamps when you were young? If you did, then I feel sure you will want to help me.

"It's this way—I save stamps, specially United States. Course I save all other kinds, too. But trouble is, being only a boy, I don't get money to buy the stamps I need. So I got to figuring that you must get a lot of mail at your office, with nice stamps on. Specially on valuable packages of securities. So I wonder if you would please try to get someone in your office to clip off and mail me some stamps from the mail at your office?

"My Dad says I'm all wrong. He says such a busy man as you are just could not find time to bother with a boy. Most times my Dad is right. But please, just remember that once you too were young, won't you, and help me? If you try, please, you will make me happy. Thank you a whole lot.

"Respectfully, Edwin——".

The letter was routed to the personnel manager who sent it to the mail department.

A few hours later a page delivered to the personnel officer a large envelop brimming with stamps. On a memorandum slip the mail teller had written: "Looks like the kid's father was wrong."

Then the personnel officer dictated this letter:

"Dear Edwin:

"I too am a stamp collector; so when our president forwarded your communication I sent it down to the head of our mail department with a little note saying: 'Do you suppose we could do anything to make this youngster happy?' I had very little hope that anything could be done, for every bank has a great number of amateur stamp collectors and stamps are spoken for and quarrelled over about as much as at any stamp club. However, several hours after I forwarded your letter, I received the enclosed package together with a note from the mail teller, saying, 'Looks like the kid's father was wrong.' So here you are, with best wishes from all of us."

Edwin's thank you letter arrived promptly.

"Gosh"—he wrote—"but you made me happy with those beautiful stamps you sent me.

"My Dad says I danced around like an Indian, I was so happy. And he says he is surprised and delighted at your kindness. Thank you ever so much."

There was a P.S., too. It said: "At one time I wrote to a bank in Newfoundland and they sent me some nice stamps from that country. And as you say you are a stamp collector also, I wondered if you would like some of the Newfoundland stamps that I have."

F.H.A. Mortgage Loan Methods

IN LENDING mortgage money under the Federal Housing plan, we have built up an operating system which, while not applicable to all banks, may contain suggestions that will be helpful to other institutions.

When an individual calls concerning a mortgage, he is first interviewed by a qualified member of the mortgage department. If it is apparent that the property will meet F.H.A. requirements, the prospective borrower is given an application blank. When that is returned properly executed, it is submitted to the officer in charge; if he approves, he places the matter before the finance committee. If the application is again approved, the bank requests an appraisal, credit and F.H.A. fee in order to investigate the property and the statements made in the application.

The application is assigned to an appraiser. If the appraisal warrants the loan and if the general aspect of the property is good, the application goes to the credit department. After approval there, two copies of the application, a copy of the credit report, check for the F.H.A. fee, and pictures of the property, are sent to the F.H.A. office. In the case of construction loans, two copies of the plans and specifications are also included. If the F.H.A. issues a commitment for insurance, the applicant is required to deposit part of the title search fee, usually $50. This deposit and all information is delivered to the bank's attorney who searches the title and notifies the bank of the closing date. At that time, a check is forwarded to the attorney to close the loan.

At this point in the operations, two mortgage ledger sheets are set up. The first contains the name of the original mortgagor, premises, present owner, his mailing address, amount of the loan, F.H.A. number, fire insurance, tax payment, appraisal report, and finally a list of all the instruments. The second sheet is a running record of the principal balance, balance on deposit for taxes, F.H.A. mutual insurance premium, and fire insurance. This sheet also contains columns for service charge, interest, and voucher number. The monthly payments are posted on the second sheet and are credited to their respective accounts on the general ledger. A separate general ledger, *F.H.A. Mortgage Account*, is maintained, interest is credited to interest earned, and service charge direct to commissions. The three deposit payments are credited on the general ledger to an account known as *Federal Housing Mortgage Trust Account.*

The F.H.A. provides an amortization schedule showing the monthly payments, including all items except taxes and fire insurance. On the 20th of the month previous to the due date of payment, notices are made up in duplicate from the schedule and a card showing the monthly tax and insurance deposits. This card contains the name and address of the mortgagor, the balance on hand in the trust account, date due, amount due, and the monthly payment. It is divided so as to include both taxes and fire insurance. Computations are made on these cards when the tax bill and fire insurance policies are received. One copy of the notice is mailed to the owner and the duplicate kept on file for posting purposes.

WILLIAM J. MAROLD
Federal Trust Company
Newark, New Jersey

First Wisconsin "FIRSTS"

First in SIZE

The First Wisconsin National is the largest bank in Wisconsin . . . and the largest bank northwest of Chicago. Total resources exceed $200,000,000.

First in SCOPE OF SERVICE

The First Wisconsin offers comprehensive service geared to the needs of individuals, local and national business firms . . . and correspondent banks.

First in FACILITIES

The First Wisconsin maintains complete modern facilities . . . as the basis for dependably efficient, constructive service at all times.

First in BUSINESS CONTACTS

Directly and through hundreds of correspondents, this bank maintains important contacts with leading commercial, industrial and agricultural enterprises throughout Wisconsin.

FIRST CHOICE of Wisconsin Banks

More than 80 per cent of the banks in Wisconsin have chosen this bank for prompt, efficient correspondent service.

FIRST WISCONSIN NATIONAL BANK
OF MILWAUKEE

Wisconsin's Bank for Banks

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

The Director's Own Report Book

CREATING and maintaining the interest of all of its directors in the affairs of the bank is one of the problems of bank officers. Directors frequently come to the meetings with their minds on their own businesses and affairs and have to force themselves to think of the bank's problems. Listening to a long recital of notes, bonds bought and sold, etc., with only a little pad of plain paper before them, is not very conducive to interest.

Some banks are creating director interest by giving each a looseleaf leatherette binder, with his name stamped on the cover, in which are filed copies of reports. This gives an individual personal touch which is lacking when reports are merely read. These books are distributed by the secretary of the board before each meeting and are collected by him when the meeting adjourns. They are not permitted to leave the bank.

CONDENSED INFORMATION

THE question is what kind of reports should be contained in these individual folders and presented to the directors. One outstanding point which should be recognized in the preparation of reports for directors is that there is no time at a directors' meeting to analyze figures. Therefore, the reports should be prepared so that they are self-analyzing in such a way that the important facts stand out clearly. Another point is that if the reports are too voluminous they will defeat their own object. They should be condensed so that the essential facts can be easily understood.

One report should show a condensed balance sheet divided by classifying the various assets and sub-totals according to their liquidity. The first column of this report uses the balance sheet figures as near to the date of the meeting as possible. These figures are then broken down into percentages, taking the total deposits as 100 per cent.

The comparative columns for the last month and for the same month of the previous year are shown only in percentages, the reason for this being that percentages indicate variations much better than do the figures themselves.

Large figures are always more or less hard for the average man to grasp, whereas percentages carried to two places past the decimal point will quickly reveal the changes that have occurred.

The reverse of the form shows a condensed operating statement with the main classifications of income and expenses shown both in dollars and percentages in comparison with a preestablished budget. Other statistics can be shown on this side of the sheet. These statistics will vary between banks.

Such a condensed report enables directors to ascertain quickly the changes in each balance sheet classification and to make a comparison of actual operating results with the operating budgets. A list of bonds showing par value, book value, market price and the depreciation or appreciation of each bond can also be prepared.

In this way each director has his own personal copy before him to which he can refer during the discussions. This not only aids him in understanding the problems at hand, but also tends to create in him an interest in the bank's affairs.

Where to Sell

By R. E. DOAN

SIX years of experience in operating a personal loan department have shown us that three forms of advertising are especially productive of new business. They are, in the order of effectiveness: direct mail, window displays, classified newspaper advertising.

In advertising personal loans in any medium, two factors are in the bank's favor. First, the fact that the bank has such a department is welcome news to most people, for they much prefer dealing with a bank. Second, the rate charged by a bank is generally lower than elsewhere, and this is naturally attractive to prospective borrowers.

However, it should always be kept firmly in mind that the mere announcement of such a service, and the low rate charged, is not all of the personal loan advertising job. Only by the clearest possible explanation of your personal loan plan in every advertisement will you avoid an onrush of undesirable prospects who, since they must be turned down gracefully, will only waste the valuable time of your personal loan officers.

Even with the clearest possible explanation in each advertisement, however, it will generally be found necessary to answer various specific questions. For this purpose, a folder explaining the plan in fullest detail, and answering the most common questions, will be found very helpful. It may be placed about the bank, or handed to the inquirer, and will eliminate many long-winded, time-wasting discussions.

In using direct mail, a careful selection of your mailing lists is imperative. Not all people in need of loans are desirable bank personal loan department prospects. For example, low wage factory employees, clerks, etc., may certainly need loans, but nevertheless may not be desirable borrowers. It is likely that their income will be entirely too small to warrant even the minimum loan.

THERE ARE MANY LIKELY PROSPECTS

IN most cities there are, however, many really desirable prospects for personal loans. To name but a few: employees of the public service company, those of the better class of department stores, teachers, government employees, railroad employees in the higher wage brackets, telephone company employees, etc.

Envelopes containing your detailed folders and addressed to the homes of such people will do the job. To secure the home addresses, two courses are possible. One of your local multigraphing or mimeographing companies probably has the lists in its possession already, and will make it available to you in return for the job of addressing the envelopes. The other course is to approach the personnel manager of the company in question—explain your reasonable personal loan rates and plan to him, and point out the advantages of having his employees deal with a bank. In practically every case you'll get the list of his employees, with home addresses.

You may, of course, also enclose a letter with the folder—cordially inviting the recipient to come in for a loan. This is unduly expensive, and is not necessary if you have a well worded folder. In fact, in some cases it is not desirable, for it may act as another obstacle in turning down some who, upon further investigation, do not appear to warrant the loan privilege.

In utilizing window displays to advertise personal loans, it is well to forget one of the rules of good window display

Personal Loans

advertising—the shortening of copy so that "he who runs may read". The reason for breaking this commandment of good display advertising is the same that we have mentioned before—a detailed explanation will save many verbal questions and considerable lost time for your personal loan officers.

One very effective window display contains the following copy:

Co-maker
PERSONAL LOANS
at only 6% discount
Example:

If you borrow	$100
You pay the Bank 6 per cent discount, or	6
Thus leaving you in cash	94

You then deposit $\frac{1}{12}$ of the amount of the loan each month for 12 months (or $\frac{1}{24}$ semi-monthly) in a special account—a total of $100, sufficient to pay off your loan.

No investigation charges whatever are made for a personal loan.

Such loans, from $50 to $500, are made to those steadily employed who have good credit records.

Although this is unquestionably long copy for a window display, we have found that the pulling power of the display is little, if any, lessened by this. People desirous of securing a loan will stop and read your message even if it is a bit long. In fact, they are glad to get as much information as possible in this manner, since it saves what may seem to them embarrassing oral questions.

The third effective personal loan advertising medium is classified advertising in your local newspaper. The classified section is one to which people in need of services such as personal loans are apt to turn instinctively, and, if your advertisement is there, catches the eye and gives sufficient information, your department will gain many new borrowers. In some cases we have had people come in with the advertisement torn from the paper in their hands; in many cases they mention the advertisement specifically.

We use a box advertisement one column wide by 25 lines deep each day, under the classification "Money to Loan." Here, again, we go into some detail, the copy reading:

Co-maker
PERSONAL LOANS
—from $50 to $500
to steadily employed
Denver residents
AT ONLY 6% DISCOUNT PER
$100 PER YEAR.
Ask for descriptive folder,
Personal Loan Department

The decorative border which surrounds this advertisement takes up nearly one-half of the total space. However, we feel that this is money well spent, for the advertisement is made to stand out from the rest of the classified ads on the page—thereby attracting immediate attention.

Direct mail with a careful selection of the mailing list, window displays with sufficiently detailed copy, and classified newspaper advertising with detailed copy and attention-getting layout offer a sound basis for the advertising effort of any bank personal loan department.

BANKING'S Contributors

HERE are brief bits of information about some of the authors in this issue of BANKING:

JOHN FARNHAM (What Other Small Lenders Know) is a newspaper correspondent and a writer on practical banking subjects. He lives in San Francisco. MERLE THORPE (America's Family Budget), nationally known as editor of *The Nation's Business*, has had experience both as a teacher and practitioner of journalism. He has done editorial work on several large newspapers and taught at the universities of Washington, Kansas and California.

FRANK W. SIMMONDS (Sixth National Interest Survey) is Deputy Manager of the American Bankers Association and Secretary of its Bank Management Commission which makes many studies of practical banking problems. FRANCIS A. ZARA (System But Not Too Much), is assistant vice-president of the City Bank Farmers Trust Company, New York. He has served on a number of important trust committees.

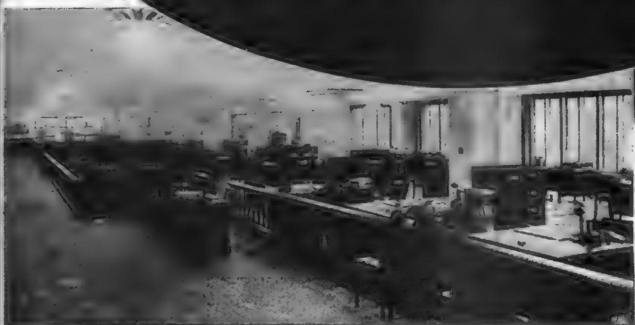
WALTER B. PITKIN (But Success Begins Before Forty) made that age the most publicized, and perhaps the most attractive, in the actuary's table. Psychologist and writer of many books, Dr. Pitkin is also professor of journalism at Columbia University, New York. His varied interests and activities range from the technique of the short story to farm management. ROY A. FOULKE (Better Days for Commercial Paper) is manager of the analytical report department of Dun & Bradstreet, Inc. Previously he was industrial securities specialist for an investment banking house and manager of the commercial paper department of the National Credit Office, Inc.

JOHN N. LYLE (How Georgia Researched) is investment security analyst for the Trust Company of Georgia, Atlanta. He is a graduate of the Harvard business school. Last December JOSEPH B. ELY (Receiving and Paying Stations), president of the Pewaukee State Bank, Pewaukee, Wisconsin, was asked by a southern bank for information about the operation of state banks in Wisconsin. He sent a detailed reply; out of it grew this article. R. E. DOAN (Where to Sell Personal Loans) is director of public relations of the Denver National Bank, and co-author with G. F. Foley of a book on the personal loan business.

SIX MINUTES

per day Per Employee pays for

Carrier Air Conditioning



OLD AND CONSERVATIVE is the Northern Trust Company, Chicago, but when remodeling was necessary in 1930, the management proved its up-to-the-minute business policies by installing Carrier Air Conditioning.

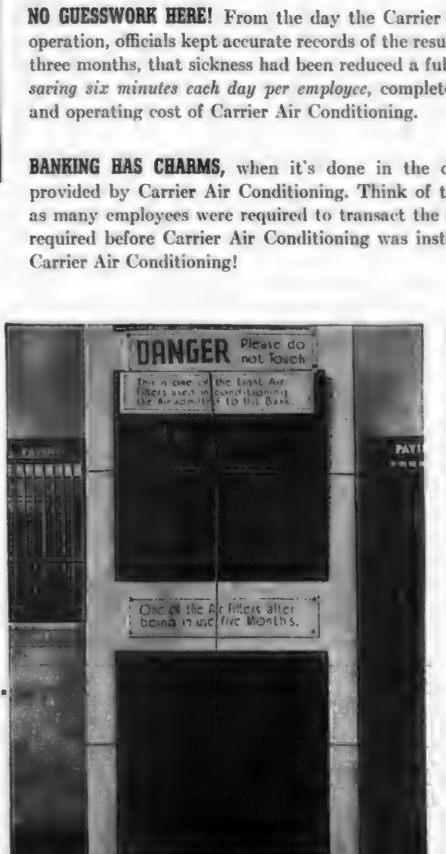
Northern Trust Co., Chicago, finds Year 'Round System Reduces Illness, Improves Efficiency, and Increases Business.

NO GUESSWORK HERE! From the day the Carrier installation was put in operation, officials kept accurate records of the results secured. Found after three months, that sickness had been reduced a full 50%. Found too, that *saving six minutes each day per employee*, completely covered the owning and operating cost of Carrier Air Conditioning.

BANKING HAS CHARMS, when it's done in the comfortable atmosphere provided by Carrier Air Conditioning. Think of this fact: in 1935, twice as many employees were required to transact the bank's business as were required before Carrier Air Conditioning was installed. It *pays* to install Carrier Air Conditioning!

CARRIER'S EXCLUSIVE Experience Protects Your Investment . . .

IT didn't "just happen" that Carrier Air Conditioned the Northern Trust, the Chicago Title & Trust in Chicago, the Philadelphia Savings Fund Society Building in Philadelphia and the American Bank Building in New Orleans—there's a reason: *Carrier's unmatched experience.* Since 1902, Carrier has devoted its efforts exclusively to the art of air conditioning. Carrier has designed and installed air conditioning in every size and shape of building—in 99 countries of the world. That's *experience!* Experience that protects your investment! And this experience is at your command—whether you plan to air condition one floor or a complete building, for summer or year around use. By planning now you can avoid the summer rush, avoid increasing building costs. Shall we send complete details?



SMALL BANKS, TOO make Carrier Air Conditioning pay dividends. To impress patrons with the care taken to insure clean, healthful air, the Perth Amboy Savings Institution displayed a new and a used Carrier filter in the lobby and drew many enthusiastic comments.

CARRIER CORPORATION, Desk 236,
850 Frelinghuysen Avenue, Newark, N. J.

Without obligating me in any way, send me complete information on Carrier Air Conditioning for Banks.

NAME...

BANK...

ADDRESS...

CITY...

BANKING'S Contents, March 1937

BANKING'S Advertisers, March 1937

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BANKING'S DIGEST—MARCH 1937

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March

Glance Twice at This Recovery

THERE are two ways of looking at business. From one viewpoint it appears in the guise of turning wheels and smoking chimneys, of lengthening payrolls and of increasing dividends, of currents of trade flowing full. When these conditions prevail, we say that business is good.

But, with the bitter experience of the depression still fresh in our minds, we are disposed to look behind this picture. Important as it is, it is not enough that business be active, that the line by which its course is charted be tilted temporarily upward. We seek the assurance that it will continue upward. We ask ourselves what all this means to us individually, whether it is advancing our own fortunes, whether it is paving the way for our progress as a people and as a nation.

We have learned that the condition of business is not to be measured solely in terms of factory employment or car loadings or of statistical foot rules which the economists contrive. We must look farther, for these may be no more than chips on the surface of the stream of business activity. We must plumb the currents to discover whether we are actually moving forward and are holding to our course.

American business cannot be separated from America. If it is true that the United States is preeminently a great business nation it is also true that in other respects it is a great nation. Everything that adds to this greatness widens the opportunity for business endeavor.

It is a great nation because it is a democratic nation. Business is not represented by the activities of a particular segment of the people. It does not stand out as a group or caste. As producers or consumers or investors—sometimes as all three—we are all a part of it. Business is epitomized in the activities of all the people who furnish goods and perform services which make for the betterment of our material environment and open the way to spiritual and intellectual development. American business is our business, just as American government is our government.

Banks, for example, are not the property of a few executives and managers. They are the property of thousands of stockholders and they hold in trust the funds of tens or hundreds of thousands of depositors. They store the savings of many persons pooled together in order that they may be made available for human use. Our large commercial and financial organizations represent an American way of doing things no less than does the crossroads grocery.

Business cannot prosper in a bankrupt country. It must find its reward in the benefits it confers, not in the losses it imposes on others. Every successful business contributes to national advancement just as it derives benefits from national advancement. Business concerns depend for their success upon building up mutually profitable relationships with the public they serve.

For this reason business has a vital interest in the solution of the problems which impede national progress. To increase employment, to put people to work in order that they may recruit the ranks of the consumers, to check the blight of poverty—in a word, to maintain the prosperity of a great people is the direct and primary concern of business. Government cannot achieve this without business. Neither can business achieve it without government. Together they can march forward to a better and happier order of existence.—HARPER SIBLEY, President, Chamber of Commerce of the United States, in a radio broadcast.

Unnecessary Havoc in Bond Prices

OVER a long period of years we have had our economic cycles, and their first effects have usually been felt in the short term security market. But they have not always stopped there; and I am wondering if it is inevitable that these cyclical changes should always play havoc with a well selected list of long term bonds.

I have in mind bonds which enjoy the highest rating by the statistical services and which have more than ample coverage for interest requirements. During the banking emergency of 1932 and 1933, and on other occasions, the banking authorities adopted what for convenience were called "convention values" for bonds; i.e., bonds which met certain specified conditions were permitted to be carried in the bank's portfolio at not over par or book value—whichever was the lower. In other words, the banks were permitted to carry these securities at what appeared to be "sound" values, even though market quotations had fallen considerably lower.

If we were to take the examiner's report and appraisal in the case of, let us say, a savings bank with an X amount invested in mortgages and an X amount in either U. S. Government or other sound, long term securities, in a period such as 1933, we would find that the bank's mortgage investments (if interest and taxes have been promptly and fully met) were permitted by the examiner to be continued—very properly—to be carried at face value. It is only when a committee of trustees, or the bank examiners, or other supervisory authorities have doubts as to real estate values in the area under review, that an appraisal is indicated, and if a fresh appraisal discloses that values in that neighborhood have declined, it is then, and only then, that requirement is made that the book value of the mortgage be reduced.

No such practice, however, is followed with regard to high grade, long term mortgage bonds. I wonder why? Market quotations may, as you know, be depressed by some chance circumstance entirely unrelated to their real value. A holder in pressing need of funds may be obliged to dispose of 10 bonds in what practically amounts to a forced sale on the exchange. This sale thereupon fixes the value of an entire issue, say, of $100,000,000, and that entire issue is thereupon appraised at the new and depressed value. And this, notwithstanding the fact that the bonds may be secured by a mortgage on property which has a real value several times the amount of the mortgage and where interest

on the bonds is being currently earned by a wide margin and where, further, all statistical agencies are in agreement that the obligation is entitled to the highest rating.

If the "convention values" method is a reasonable one to apply when markets are temporarily depressed, it should of course be an equally good method to use when bonds are selling at high prices. This idea of more stability in our bond portfolios constitutes an important element in the banker's peace and comfort of mind. There are other elements which add to that peace and comfort; elements which enable the banker to recognize that, so long as sound judgment is used by him in the selection of his assets, he is well prepared for any emergency.

Particularly important among those elements is the fact that reliance may continue to be placed upon the Federal Reserve for loans and advances against Government bonds up to a period of 90 days and that, under Section 10-B of the Federal Reserve Act, loans and advances may also be made against the general bond portfolio and other sound assets, with a differential which at present is only one-half of one per cent.

If I were operating a bank portfolio, I should do as a number of important financial institutions which have recently published their bond holdings, have done. I should adopt the practice of writing off all premiums above par on bonds in portfolio, so that all bonds would appear on the books at par or less. This practice has much to commend it. Where sub-standard or defaulted issues are in the portfolio and book values are less than market, sales may be effected from time to time at a possible loss from book values. Such losses, however, frequently could be evened up by selling at the same time some high premium bonds, thus in effect providing a cushion to absorb losses on less desirable issues. In any event, accounting results should not dominate sound investment policy.—J. HERBERT CASE, partner in R. W. Pressprich & Company, and former Chairman of the Federal Reserve Bank of New York, before the Mid-Winter Meeting of the NEW YORK STATE BANKERS ASSOCIATION.

And Thrift Still Lives

CHARACTERISTICS of a business recovery are the increased abilities of people in general to earn and to save. After the losses and distresses of the business recession and depression, everyone welcomes these symptoms of returning economic health. Both bring industrial expansion, increased employment, improved standards of living, and greater material happiness. It is important that these welcome developments not only be permitted to continue but that they be actively encouraged in every legitimate way possible.

Despite all the encouraging features which are to be found in our business recovery, forces are also operating to restrict and to endanger the accumulation of savings. There are four in particular:

The first is the fact that the Government is borrowing its funds at unusually low rates of interest. This procedure eats away accumulated savings. This type of Government financing has been pointed to with pride, and apparently the policy is to be continued. This means that all those great institutions, which have invested all or part of their funds in Government securities for safety and income, have suffered a sharp reduction in their incomes from this source. The reduction in income from this cause has affected adversely our insurance companies, hospitals, colleges and universities, banks of all kinds, foundations—in short, some of the greatest and finest institutions of our land. Since 1930 the Federal debt alone has increased to nearly 34 billion dollars. Commercial banks hold approximately 18 billion dollars of these securities. The other institutions mentioned own a large proportion of the remainder. Then there are the state and local securities which these institutions hold and whose interest rates likewise have fallen sharply.

Through the maintenance of artificially low interest rates in its borrowing, the Government is doing two unfortunate things: (1) It is dissipating the income of some of our greatest and finest institutions and thus wasting our national patrimony, accumulated over many years; and (2) it is preparing the way for further losses when interest rates rise and prices of these securities fall, as they probably will.

The savings of our people are being dissipated in a second way. A little over a year ago Congress, on recommendation of the President, placed a heavy tax upon the undistributed income of corporations—that is, upon their future surpluses. In recent months we have seen our corporations pay out their surpluses to avoid these heavy taxes. These surpluses have, in the past, enabled business enterprises to grow, to expand, to take advantage of new opportunities, to develop new products, to hold on during depressions, and to keep people employed in hard times.

Today we are seeing these savings dissipated because of this very bad tax law. Important business concerns are forced to borrow money in order to distribute their surpluses, because of this tax law. This is an incredible situation and apparently it is not widely understood. It is another case of wasting our national patrimony. Whether or not we can escape a day of reckoning is a matter of dispute.

Another way in which the savings of our people are being endangered is through the slow and insidious currency inflation which is taking place. At present most of the inflationary procedure grows out of the fact that the Government is selling a large proportion of its securities to banks which issue note and deposit currency against them. This currency is not self-liquidating; it is merely issued against the public deficit. The currency goes into circulation through Government spending and stays either in circulation or in banks as deposits. Our increase in bank deposits, since early in 1933, has been due largely to Government borrowing and spending. This expansion of currency brings higher prices and lessens the purchasing power of people's savings.

This method of impairing savings usually works slowly at first and is not widely understood. Indeed, it is often confused with real prosperity. It may require four or five years for it to get in its damaging work. But when the full effects show themselves, the savers, the institutions with fixed income, and employees whose wages lag behind rising prices, will be caught and injured.

A fourth danger to people's savings grows out of the possibility that the pressure groups bent upon spending will now press in upon the President and demand that he deliver to them what they think he has promised. Certainly a great number of people believe that this Administration has committed itself to spending rather than to saving.

Whether our sturdy, self-reliant, and thrifty people will be protected from these dangerous pressure groups of spenders remains to be seen. At present, the outlook for an organized or effective opposition in Congress to spending and waste does not appear particularly encouraging.

It is no answer to say, with respect to the importance of savings, that the majority is right in its judgments, and the minority wrong. Those who provide the largest proportion of the savings of this nation are a minority of our population. To work toward a wide distribution of saving capacity is desirable, but to destroy or to lessen savings is to destroy the sources from which our increased incomes are derived. Without savings we must revert to the handicraft stage and to the primitive.

There is no reason why efforts to improve the conditions of the weak and downtrodden and to encourage capital accumulation should not proceed hand in hand.—WALTER E. SPAHR, Chairman, Department of Economics, School of Commerce and Finance, New York University, in a radio address.

Give the Railroads a Green Light

IN examining fundamental factors in regard to the 20 important receivership railroads I found that 11 had burdens of debt substantially less than the average of all roads, but margins of profit also substantially less. These roads passed into receivership, not on account of the excessive interest burden, because this was less than the average, but because the margin of net was so low prior to the depression that the traffic decline practically extinguished it.

The fundamental change in the industry which has affected the status of railroad bonds is the maladjustment between expenses and operating revenues that has arisen over the last 30 years. As long as these margins are dangerously low, railroad bonds can never regain their former status, as a dangerously low margin between revenues and expenses renders even the most conservative bonds subject to default when traffic falls off rapidly.

At the present time, the earning margin of safety in the railroads is increasing. The low in the depression was 10 per cent; in 1936 it was 16 per cent. As long as this improving situation continues, your railroad bonds will become safer. The question the conservative trustee investor would like to have answered now is not what earnings will be in the immediate future but what they will be in the next depression.

The question I should like to be able to answer is whether the railroads will be permitted, prior to the next depression, a level of earnings sufficiently large to enable them to weather it. In the answer lies the future position of railroad bonds.

Some may challenge this opinion as it does not take into recognition the fact that railroad earnings are not only subject to statute law but also economic law. I am fully aware that for the Government to permit the railroads to earn an adequate return does not in itself afford any guarantee that they will be able to earn it. This doubt as to the earning power of our railroads has arisen largely since the depression. I do not remember any such arguments in the pre-depression rate cases and it is my belief that the improvements in traffic that are now under way will give a better answer to the question than I could give now. Personally I have little fear as to the ability of the industry, if it is freed from unfair competitive conditions, to earn prior to the next depression a return sufficient to protect all conservative railroad bonds.

In regard to the future, therefore, while I can give no assurances, I do feel that the problem is more clearly recognized than it was in 1920 when the Transportation Act was passed, and therefore that while the effort to restore the railroads to a conservative basis again may fail, the prospects of success are far greater now than they were in 1920.

It is my hope and belief that in the future the relationship between earnings and expenses will again change, and this time change for the better.—FAIRMAN R. DICK, member, Dick & Merle-Smith, New York, and Chairman, Committee on Railroad Securities, Investment Bankers Association, before the Mid-Winter Trust Conference, AMERICAN BANKERS ASSOCIATION.

Working Capital Is the Acid Test

WORKING capital is the commercial banker's margin of protection for the funds he advances. It is comparable to the overage or margin always obtained when advancing money on a collateral basis. As long as working capital exists in reasonable amount your claim is ordinarily protected by a margin of readily realizable assets over current liabilities, included in which, of course, is your own.

Working capital, we know, is affected adversely by (1) cash losses; (2) allocation of current funds for the expansion of capital assets; (3) diversion to miscellaneous investments; (4) payment of dividends in excess of earnings; (5) actual shrinkage in value of current assets; (6) increase in current liabilities from some unexpected source such as damage or infringement suits.

The construction of the balance sheet, which reflects the values of the business under consideration and basis on which we arrive at a working capital position, is of utmost importance.

Once we are certain that this opening working capital has been put to the acid test, both from a standpoint of proper classification and values, we can examine the items which may reduce our margin of protection during the probable life of the credit in question.

Here the judgment factor definitely enters, and is centered on the possibilities in connection with the six ways in which working capital may be adversely affected. Will there be losses? Reference, of course, is made to the past operating record of the company, its gross profit, and, most important of all, its prospects for maintaining its position and the extent to which general conditions expected to prevail will affect the company's operations. Here, ordinarily, under conservative loaning management, the possibility of a loss is considered (whether budgeted or not) and an attempt made to arrive at a reasonable outside figure.

The question of allocation of funds to fixed assets beyond the ordinary reserve for depreciation is directly connected with the adequacy of depreciation rates to the date under consideration, capacity in relation to demand for product, and many other things. However, the capital budget is invariably a matter of discussion with the management during the period of loan negotiations, and again an outside figure for this purpose usually agreed upon.

Diversion of current funds to miscellaneous investments should theoretically, at least, probably never take place under alert and honest management. During the years, however, of severe financial strain from 1930–34, diversion which took the form of officers' overdrafts, advances to and investments in affiliated companies, reduced the working capital of many companies and threw a spotlight on management for allowing such a raid. The chance of either initial occurrence or repetition of this to any serious extent is, of course, given ample consideration.

The fifth consideration, that of asset shrinkage and consequent contraction in working capital, is related in most instances quite directly to the lending agency's opinions of the future outlook. In most instances such a shrinkage would most probably come about through serious price declines, with which we are not unfamiliar. This, of course, would not always be the case as there are other factors, usually localized, such as dishonesty, drought, flood, crop failure, and others which may obviously bring about serious asset shrinkage in an individual company.

The last consideration, that of unforeseen liability arising from a wholly unexpected source, is probably the least often encountered and also probably the most difficult to anticipate. Such a liability ordinarily arises as a result of a damage suit of some kind and is most generally associated with highly developed enterprises which are operating on a large scale. Realizing the possibilities, a reserve for contingencies is often provided by conservative managements of larger corporations whose operations are conducted on a national basis. Considered properly, also, under this caption should be the accelerated maturity of funded debt brought about as a result of non-compliance with terms or provisions contained in the trust indenture covering the securities in question.

While it is acknowledged that a sophisticated analysis may and probably should include intensive study of costs, of budgeting, of production and marketing methods as well as many other angles, it is my contention that first hand knowledge of a company's working capital position and close and intimate contact with its management are the best yardsticks for us to use in reaching credit conclusions.—J. W. SIMPSON, JR., Vice-president, First Wisconsin National Bank, Milwaukee, before the Mid-Winter Conference of the WISCONSIN BANKERS ASSOCIATION.

"Trust" Has Many Meanings

IN considering the future of trust business, I think it would be wise to examine two or three points that should have attention if trust business is to make the progress that seems possible. The public seems confused over some of the terminology frequently used in trust business. Take, for example, the word "trust." A casual observer would naturally think that an institution which called itself the X Bank & Trust Company had an active trust department, but this does not follow at all. There are several states that require their state-chartered banks to include the word "trust" in their title, even though they do not have trust departments, and have no intention of starting them. Imagine the surprise and perplexity of the president of such an institution when he finds that one of the bank's loyal customers has died and named it as executor and trustee of his estate. When such a situation arises, the president of that bank either refuses the appointment for his bank, or he qualifies and somehow muddles through. Either plan is costly to the estate. This should be remedied in some way. Perhaps the use of the word "trust" in the bank's title should be restricted by law or regulation to those banks that have an active trust department.

The same confusion surrounds the word "trustee." It is used in connection with many different kinds of service. It is used in debenture issues where the so-called trustee has no duties except in case of default. It is used in other bond issues when the duties are really those of a fiscal agent. It is used when the duties are very limited and consist merely of authenticating the bonds and representing the bondholders only when requested to do so. But, however large or small is the responsibility assumed, when the bonds are offered to the public, the name of the corporate trustee appears on the bond circular, followed closely by the all inclusive word "trustee." There is no explanatory note outlining the responsibilities assumed by the trustee. Unfortunately the bond investor has his own mental concept of the meaning of the word "trustee" and the duties which the corporate trustee has agreed to perform under the indenture may not agree at all with his concept. Should we not avoid this indiscriminate and often misleading use of the word "trustee"? Can we not employ more exact terminology?

We hear a great deal these days about investment trusts. Some of the publicity has not been favorable to them. But whether the news is favorable or unfavorable, many of the public are confused and think these trusts are directed by or closely connected with our sort of trust business because the

word "trust" is a part of their name. It is true that they are always "trusts" and you are "trust companies," but the public does not get that distinction. Nearly all of these investment trusts operate under an indenture, and some use a corporate trustee and require a very high standard of trust service, while others use a corporate trustee for little more than custody of the underlying securities.

Trust men now have under consideration also the common trust fund idea, which is designed to provide better investment service for small trusts and funds under your control and direction. It has the endorsement of many trust leaders and seems to be a sensible and natural development of trust service.

New regulations permitting and governing common trust funds are under consideration by the Federal Reserve Board, and in many states additional legislation will also be necessary before common trust funds can be operated. When, as, and if these various barriers are hurdled, trust companies all over the country will begin a campaign for this new type of business. We know that the common trust fund operated and directed by trust companies for the benefit of small trusts and funds, and for the investment and safety of which trustees are definitely responsible, is a totally different enterprise from the investment trust which is operated and directed by others not connected with the trust company, and over which trust men have little influence. But unless great care is used in the presentation of the common trust fund idea to the public, they will not grasp the distinction and will become even more confused than they are at the present time.—Tom K. Smith, President, American Bankers Association, before the Mid-Winter Trust Conference, A.B.A.

Federal Budget Philosophy

In analyzing the Federal budget for the fiscal year 1938, as presented to Congress by the President, attention is first attracted by the absence for the first time in eight years of the now familiar deficit. For the fiscal year 1938 the President predicts a surplus of $1,135,000,000. Making the technical correction for money paid in retirement of public debt, not a real cost payment, increases this predicted surplus to $1,537,000,000.

This happy event is predicated upon an anticipated increase in revenues over the present year of about a billion and a half, based upon the continued progress of economic recovery, and without the addition of any new taxes. Expenditures, on the other hand, are estimated about two and a quarter billions less than for 1937.

The actual situation, however, is not quite so favorable as at first appears. The President stated that he was at the time unable to make an estimate of the expenditures for recovery and relief. This item, the President said, would be increased by an amount which he hoped would not exceed $1,537,000,000. Should this limit be reached, and expectations be otherwise realized, the surplus would disappear. Also the reduction in total expenditures, as compared with 1937, would become only three-quarters of a billion. If allowance be further made for bonus payments in the fiscal years 1936 and 1937, which were extraordinary items, the predicted 1938 expenditures are less than 1937 by only a quarter of a billion, and actually exceed the 1936 expenditures by nearly half a billion. Also there is the possibility of further unpredicted expenditures, just as Congress added the bonus soon after the submission of the 1937 budget a year ago.

Actually this budget shows no evidence of economy in governmental costs. The only items showing substantial reductions are the C.C.C. and "recovery and relief," and final estimates are not made for either. Substantial increases are asked for the general departments of the Government, for public works, for national defense, and for social security.

We have in fact a continuation of the characteristic New Deal budget philosophy: little effort to balance the budget by economy in expenditures, increased expenditures going hand in hand with declining revenues, dependence upon returning economic prosperity eventually to restore the balance by increased revenues, leaving an accumulated addition to the public debt, and setting the nation upon a new scale of regular expenditures, twice as high as before, which must require a continuing heavy burden of taxation to support and which appears destined to bring a recurrence of heavy deficits when next the business cycle takes a downward turn.—Professor Fred R. Fairchild of Yale University before the Yale Economics Club.

Old-Fashioned Banking

We have heard much in the past years of inflation—commodity price inflation—currency inflation and credit inflation, always with an implication of danger. I am going to venture the opinion that our commodity price level will sooner or later—be it one year or five—find itself corresponding to the new supply and the increased value of gold; that is to say, our commodity price level will increase to the same extent that we have increased the value of gold; with this qualification, that the law of supply and demand will occasion fluctuations above and below the fixed value of gold.

I believe that our commodity price level for the past eighty years has borne a definite relationship to the value of gold, and that the future will witness the same relationship in those values.

Basing my conclusion on these thoughts I do not believe that we are experiencing an undue inflation in commodity

prices and we will not experience an undue inflation in those prices until we have absorbed the increase in the statutory value of gold. If our commodity price level once more crosses the gold line—on that day we will approach an inflation in commodity prices, the extent of which will govern the deflation that is bound to follow.

I believe that our commodity price level is approaching a new normalcy, and that so long as we do not greatly exceed that normalcy—so long is our structure sound.

I believe that all loans based upon commodities at their present level and upon the production of commodities at the present cost of labor are economically sound and that loans can be safely based thereon. Of course considerations are due to many factors that surround the specific investments that are to be put into a bank's portfolio. Some economist has recently said that it is the mistakes in asset acquisition that are being made today, that will cause the grief in the banking business when the next depression approaches.

I doubt the wisdom of acquiring a large volume of long term, low coupon rate bonds or debentures.

I am likewise opposed to the direct acquisition of notes secured by chattel mortgages or conditional sales contracts on automobiles or other personal property, commonly called "consumer paper", unless the stability of the maker is given the same test and measured by the same yardstick as every other borrower in the institution is required to meet. That business, in my opinion, should be left to the finance companies, and the finance companies' borrowings at the banks should be limited to short time paper; so that as a general rule the borrowings of the finance companies may be liquidated out of the proceeds of the current collections on the installment paper.

The funds which a banker invests in bonds should be considered as a bulwark to deposits, a protection against the losses resulting from the normal rate of casualty in the usual bank functions. Years of experience have taught that the purchase of bonds on the theory of realizing a speculative profit from their resale is a dangerous banking procedure.

In most cases a bank can be better served today by maintaining a high cash position even though that means a low profit account, rather than by acquiring a large volume of long term low interest rate paper for the sole purpose of accelerating dividend possibilities. It is easier to explain low profits to stockholders than it is to explain losses to your depositors.

Higher interest rates, higher labor costs and higher rents, are in the offing. I cannot fix the day, but sometime interest rates will increase and when they do, low interest rate, long term bonds will depreciate in market value with resulting losses in asset value.

On the other hand, a reasonable amount of a bank's funds should be invested in local counter loans, real estate loans under Title II of the Federal Housing Act, and loans of similar type. A certain percentage of loans of these types belongs in the portfolio of every well managed bank.

Many of the ideas that I have expressed will be termed "antiquated and old fashioned", garnered in a period prior to the development of modern banking. Nevertheless, a conservative attitude tempered with a mental alertness to changing conditions is still, in my judgment, one of the principal elements of good banking.

For the bank that stands rigidly by the principles of confining its investment account largely to high grade securities and measurably restricted maturities, the result unquestionably will be lower earnings during the present period of low money rates. Few bankers, however, will deny that dividends to stockholders are secondary in importance to the conservation of depositors' money.

The courage to follow one's own convictions regardless of pressure and influence is an invaluable asset to a banker. I am an advocate of progressive conservatism and I believe that in the long run that course holds the greatest promise of fulfillment of the banker's responsibility to his depositors, customers and stockholers.—FRANK C. RATHJE, President, Chicago City Bank & Trust Company, before the Mid-Winter Conference of the WISCONSIN BANKERS ASSOCIATION.

Trust Service to Fit the Times

TRUST men today work in an entirely different atmosphere from that which obtained but a few years ago. Times have changed and we have changed with them. As trust men it is our very definite function to look forward, not backward. We must appraise the relationship of the new order of things in this country to the estates and trusts in our care. We must think of new estates in terms of new conditions and must evaluate future trust business in concepts of the future.

I am by no means pessimistic. I hope rather that I am optimistic. On the other hand I am not an unreasoning optimist. At the same time I am convinced that this new order of things is going to build American trust business into greater and larger proportions than ever before. The social consciousness of the country has now awakened. Activity in every field is being weighed in the scale of social service and may I say that there is no greater medium for social service in this country than the trust institution.

Protection and conservation for small estates as well as for those of larger size constitutes a social service of the highest order. Therein, as I see it, lies the future of trust business. The trend of trust business is toward the administration of small estates rather than large estates.

True, we need the aid of supervisory and legislative authorities before we can properly adapt the facilities of trust institutions to permit of social service to the fullest extent. That assistance and support I think we can count upon.

It is indeed a tribute to the flexibility of trust service and to the foresight of trust men that trust business all over the nation is now rapidly adjusting itself to changed conditions. I venture the assertion that trust departments have attuned themselves more quickly to the somewhat kaleidoscopic developments of recent years than has any other department or division in the field of finance.

By way of illustration, the movement for the establishment of common trust funds was inaugurated by the Trust Division nearly four years ago when the importance of social service was just beginning to dawn upon American business consciousness. Utilization of this method for the sound in-

vestment for the funds of small estates will make trust service generally available to all classes.

Another indication of this adjustment is the movement for greater uniformity in the laws of the various states relating to trusts. The encouragement and supervision of this movement has been an active policy of the Trust Division and we now seem to be on the point of real constructive accomplishments. This year in more states than ever before trust men are contemplating and studying legislation to modernize the trust statutes of their respective states and to harmonize them with those of other states. Nothing could contribute more to the efficiency and economy of trust business than the modernization of state laws.—BLAINE B. COLES, Vice-president, First National Bank, Portland, Oregon, and President, Trust Division, American Bankers Association, before the MID-WINTER TRUST CONFERENCE, A.B.A.

Time Deposits Mean Just That

BANK reform probably cannot wholly prevent the recurrences of booms and depressions, but I am convinced that sound and intelligent reconstruction of our banking scheme on a basis of inherently performable obligations would accomplish two highly important objectives. First, it would prevent the perverse functioning of the banking system from magnifying the booms and deepening the depressions, and leave it blameless for the losses suffered by the community. Second, it would prevent banks becoming the hapless victims of everybody's economic errors and excesses, and enable them to function adequately in all phases of the business cycle.

Sponsors of proposed reforms seem to overlook the one vital defect in our banking scheme; namely, the fact that the obligation of our banks to their depositors is inherently unperformable. Until that basic weakness is eliminated there is little use to worry about minor reforms. Happily, it can be eliminated and, that, without great difficulty. To do so, however, we must recognize the essential difference between the commercial banking business and the savings banking business and deal with them separately.

DEPOSIT CURRENCY

THE obligation of the banks to their commercial or checking account depositors may not be made performable by limiting that obligation, because our commercial deposit structure is the currency of commerce and denial or limitation of the commercial depositor's right to have his check honored upon presentation would destroy the quality of currency in our commercial bank deposit structure and rob our economy of the principal medium through which it functions.

The obligation of our banks to their commercial depositors, therefore, must be made performable by limiting the employment of commercial deposits to such short time self-liquidating loans as will adequately support demand liability. This may readily be done, and to do it we shall not require all of the assistance that Congress has sought to make available through the Federal Reserve System, but only that which is well within the ability of the System to provide. Our only serious difficulty here arises from our huge investment of commercial deposits in Government bonds. We must look to the Federal Government for a practical solution of this problem over a period of years.

The problem of making the obligation of the banks to their savings and time depositors wholly performable under all conditions requires a different approach. It cannot be solved by limiting the employment of savings funds to short time self-liquidating loans because it is inherent in the nature of money savings that they must be employed to finance the creation of durable wealth, and funds so employed cannot be recalled at will.

However, the opportunity for flexibility is found in the bank's obligation itself. Savings deposits are not a part of the currency through which our economy functions. Pass books and certificates of deposit are not passed from hand to hand for the purchase of goods and payment of bills. There is nothing in the relationship of savings bank deposits to our economy that compels them to be withdrawable upon demand or short notice. The obligation of the bank to its savings and time depositors may be, and must be, limited to the liquidation possibilities of the securities in which the funds of the depositors are properly and necessarily invested.

This does not mean that savings depositors should not ordinarily be permitted to withdraw their funds at their pleasure. They should be permitted to do so, of course. It only means that this necessary limitation shall underlie the relationship of the bank to every savings and time depositor, modify the language of every pass book and certificate of deposit, and be available to the bank whenever its savings and time depositors seek to withdraw their funds more rapidly than the bank can liquidate the securities in which these funds have been properly invested.

This element of flexibility in the contract between the bank and its depositors is necessary primarily to protect the depositors from themselves and from each other by preventing their destroying their own savings. It is necessary, also, to protect borrowers from being thrown into bankrupcty by the forced liquidation of banks, and to protect the community from the whole chain of evils that stem from bank deflation. Moreover, it is necessary in order to make savings freely available for the creation of new wealth.

The building and loan associations in this country and Europe have had such an elastic provision in the obligation of the associations to their members for more than a hundred years. There is no sound reason why the same relationship should not be created between mutual savings banks and their members immediately.

Before that method, however, can be made available for commercial banks we must completely segregate our savings departments and our commercial departments, because, if the right of the savings depositors to withdraw is to be limited to the liquidation possibilities of the securities in which their funds have been properly invested we must be able to know precisely what securities these are.—RALPH W. MANUEL, President, Marquette National Bank, Minneapolis, prepared for the Annual Regional Conferences of the ILLINOIS BANKERS ASSOCIATION.

The Measure of a Trust Man

THE trust officer must be prepared to bring into a conference about a proposed trust instrument all of his best mental equipment. Of course, he must know the details of his own business. He must know from his experience what business is considered as profitable to his institution and what duties are regarded as onerous, to the end that adequate compensation will be received in line with the duties to be performed.

He must know the policies of his institution, particularly of its trust department. He must know the trust business generally, as well as how it is conducted within his own institution, and keep up to date with modern practices and decisions of the courts. He must know what his customer has in mind and be definite and direct, not specious, in his comments and recommendations. He must avoid making only adverse criticism. Without the aid of any talisman or charm other than his own ability, he must, in effect, exercise occult powers and project his mind into the future, visualizing situations which may arise and which may be provided for by proper care at the outset.

He should recognize the problems and questions presented by the instrument, without necessarily sitting in final judgment upon them. Counsel for his institution can advise him as to the legality of any provision of the instrument which to him seems doubtful, but he must meet the practical problems and also appreciate where he needs the assistance of counsel.

Above all, he must bear in mind constantly that he is dealing not with mere words and phrases and red ribbons, but with human beings, their financial security, their hopes and their welfare. If the trust officer can measure up to these exacting standards, he will have discharged honorably his responsibilities to his institution and to its customers.—ROBERT A. JONES, Personal Trust Officer, Guaranty Trust Company of New York, before the Mid-Winter Trust Conference, AMERICAN BANKERS ASSOCIATION.

Yesterday's Train

DOWN in the South in the old days there was a jerkwater railroad with a reputation. The reputation was that it never adhered to its schedule. Operating crews, and patrons as well, came to regard the time-card as a practical joke.

There was a certain traveling man who rode over the line at frequent intervals. One afternoon when he disembarked at his destination he hailed the conductor. "Old man," said he, extending a large cigar, "accept this with my compliments as a slight token of gratitude." "What's the notion?" inquired the other. "Because I've been traveling on this road for 12 years and this is the first occasion the train ever got in exactly on time." "Mister," said the conductor, "that looks to me like a mighty good cigar and I'm mighty fond of smokin'. But I can't take anything on false pretenses. I've got to tell you the truth. This isn't today's train. This is yesterday's train."

Banking can't go to town on yesterday's train. Just as the railroads with problems similar in many respects to those of banking are studying their operating and service problems in terms of the public interest, so must banking subject itself to critical self-analysis and appreciate the import and significance of its customer and public relations. The public relations phase of banking is not something that can be created and then dropped.

If you deem it advisable to practice eternal vigilance in connection with your loans, is it not equally important, if not more so, to watch from day to day your relations with depositors, borrowers, and the public from whom your earning assets emanate?—A. R. GRUENWALD, Director of Public Relations, Wisconsin Bankers Association, before the Annual Regional Conferences of the ILLINOIS BANKERS ASSOCIATION.

Uniform Service Charges

BANKERS are generally agreed that the service charge idea is fair and proper. The lack of coordination in adopting schedules arises from the fact that there has never been presented to them a uniform method of cost accounting. In other words, there are too many ideas on the subject which are not arrived at through intelligent analysis. That is the reason the N.R.A. Bankers' Code failed—it was not based upon study and substantial research.

A service charge schedule should *not* be just a set of arbitrary rules and figures. At the present time the service charge principle is being abused in both directions, some banks making excessive charges and charging the customer for drawing his breath, so to speak, while other banks have no schedule of charges whatever.

In a sense the term "service charge" or "activity charge" is a misnomer, because all of the charge is not for services; part of it representing costs of supplies, overhead costs of administration, insurance, and other things. Many customers are apt to get the impression that they are being charged merely for taking up the time of the officers, tellers and other employees, unless the idea, being new to them, is fully and comprehensively explained. And surveys now show that it is no longer a difficult matter to explain charges to customers if such charges are based upon fair and reasonable accounting methods.

Yet it is surprising to find that there are still so many banks, particularly the smaller ones, which are overlooking this source of income, which is justly theirs. In some cases the bankers are more afraid of it than the customers. But the idea is here to stay. Some of the old timers who reacted quite vociferously at first, are now its staunchest supporters. —PAUL T. BETZ, Executive Vice-president, First National Bank, Lincoln, Illinois, before the Annual Regional Conferences of the ILLINOIS BANKERS ASSOCIATION.

No Apologies

ALTHOUGH the item "public opinion" does not show on our statements, nevertheless it is an important factor which can materially affect all other items, according to the attitude of the public. Let us not forget that the public wants to know what banking is all about, and now of all times the public is receptive and should be told the "Why" and "How" of banking. Build up within your banks a personnel better informed about public relations and what they can mean in the development and progress of your banks.

How many bank employees and directors can explain simply and clearly the reason for reduction in interest rates paid on time and savings deposits, when rates on loans remain practically the same? How many can explain the service charges and face the customers with confidence when doing so, instead of in an apologetic manner? Are they in a position to tell the uninformed customer why?

We, as bankers, must learn better to understand the needs of the people, and we must help them better to understand the problems that confront us in performing our various services.

Public relations for banks is not a problem of getting pieces in the newspaper. It is a question of selling the idea that banking is an essential part of the industrial life today, of stressing the value of bankers as honest workers and technical experts.—S. G. SMITH, Cashier, The Neat, Condit & Grout National Bank, Winchester, Illinois, before the Annual Regional Conferences of the ILLINOIS BANKERS ASSOCIATION.

Human Reserves

DURING the last three years the Federal Government has been creating piece by piece a program of security for those rendered destitute. Two main parts of this system are the Social Security program and the works program. Some parts of this security program and the needs which called them into existence now stand in danger of being ignored by those who believe that business recovery has removed the underlying problem of destitution. This optimism, based on superficial study of the present recovery, utterly fails to take into account the fact that unemployment is still a serious problem and that there is every indication that it will continue to be so for an indefinite period.

Unemployment has been and will continue to be a most pressing social and economic problem. The outlook for 1937, even on the optimistic assumption of a return to 1929 levels of production, holds promise of 6,500,000 to 7,500,000 unemployed. For the more distant future, should prosperity levels materially exceed those of 1929, it appears probable that 4,000,000 unemployed will be the minimum.

The questions of pressing importance are these:

What are the unemployment prospects in the immediate future? What volume of unemployment must we be prepared to face in the most distant future? What social policies must be devised?—CORRINGTON GILL, Assistant Federal W.P.A. Administrator, before the AMERICAN ASSOCIATION FOR LABOR LEGISLATION.

Creative Banking

THE United States contains 6 per cent of the world's area and 7 per cent of its population, but in the 16,249 banks operating at the end of 1935 there was contained two-thirds of civilization's banking resources.

Across the counters, over the desks, and through the records of the banks, passes more of the nation's activity than moves through any other channel of economic or social activity. Thus the banker has occasion and opportunity to observe the flow of our whole economy.

Banking is duty bound to take an active and creative part in our society, through analysis of the elements of which our economy is formed and the forces which drive it forward.

There are many, perhaps, who believe that the banking mechanism is in the relative position of subjective pistons and crankshafts that merely transmit the driving force of an active economy's demands from the engine block back to turning wheels. This supine acceptance of the inevitability of recurrent depressions is a position that I for one believe we must abandon.

If there is doubt of the imminence of the need for change from a passive defensive policy to one of alert, cooperative and aggressive attack upon the problems at hand, one need but turn to the daily press and observe the "freezing in" of the New Deal's program of controls in our economic structure.

The very measures that are set in operation to correct one abuse and to slow down a too rapid speed of production may be so effective in one direction that they tip the balance sharply in another. A corrective for the second condition may develop a third angle of unbalanced economy.

We frankly face the fact that unless banking is a leader in seeking and achieving economic stability, it cannot hope to receive continuing public support.

From an historical perspective, banking has no alternative but to examine not only its own internal functions but the relation of banks to the whole movement of our modern society. In prospect banking is faced with a struggle to make and hold a place for itself by its sound contribution to the stability of money and banking arising from an intelligent exercise of its functions, based on a fundamental understanding of its relation to society in the light of governmental interpretation of its control over the economic structure.

The agency that can so analyze the problems of our modern society that it can offer a program of continuing elevation of the standards of living of the American people, without intervening periods of depression, will be the accepted leader of the people and will assure to itself permanence and reciprocal prosperity.—THOMAS C. BOUSHALL, President, The Morris Plan Bank of Virginia, before the SOCIETY FOR STABILITY IN MONEY AND BANKING.

Reefing the Credit Sails

THE Board has now taken the final step through increasing reserve requirements to reduce excess reserves on May 1 to about $500,000,000 and the potential expansion to perhaps $5,000,000,000 or $6,000,000,000. The present volume of bank credit, notwithstanding a lower volume of business operations, is larger than it was at the pre-depression peak in 1928 and 1929. The purpose of the Board's action was not to counteract an existing inflation, but to prevent an injurious credit expansion, to use the language of the law. The Federal Reserve System is thus placed in a position where it will be closer to the market and can more easily prevent an injurious expansion if it should threaten to develop.

What are the effects on the banks themselves of an increase in reserve requirements? In so far as individual member banks are concerned, they find that they have less funds available for investment or loans. The very fact, however, that the funds were excess reserves, that is, were idle, shows that the banks were not finding useful employment for these funds. What the banks as a whole lose, therefore, is not funds that they were using, but funds which under present circumstances were idle. Taking the banking system as a whole, such an action reduced the amount by which the volume of bank credit could be further expanded if the urge to expand began to take hold.

Another effect of raising requirements is that it limits the amount by which every dollar of reserves can be expanded. Prior to the action of last Summer every dollar of reserves could support $12 of member bank credit. After reserves were raised 50 per cent that amount was reduced to $8. By the final increase of 33⅓ per cent, the amount of possible expansion has been reduced to $6 for $1. This lower ratio in itself makes it easier for the Federal Reserve System to counteract an injurious expansion, because every dollar that is added to member bank reserves will add $6 instead of $8 or $12 to the potential volume of member bank credit. An increase in reserve requirements, however, places no absolute limit on the extent to which banks can expand, because whenever the banks are short of reserves they can borrow from the Reserve bank and, if the System feels that expansion should be encouraged, the Reserve banks can give the banks additional reserves through open-market operations, which would relieve the banks of the necessity of borrowing.

What an increase in requirements accomplishes is to place the Federal Reserve System in a position where it can influence the behavior of member banks through the normal credit instruments of open-market operations and discount rates. This is the usual and desirable position for the System to be in. While the banks have reserves far in excess of their needs the Reserve System is powerless to influence the rate of expansion or contraction of credit. The power to influence the volume of bank credit through reserves and through open-market operations and discount rates places upon the Federal Reserve System the grave responsibility of seeing that legitimate business is always accommodated at reasonable rates, and that the volume of accommodation in the aggregate is at a rate best adapted to a stable condition of business and credit.

The Federal Reserve System recognizes the gravity of this responsibility. We also recognize that so many factors in our economic life are beyond our control that the goal of a full utilization of our national resources at all times without violent fluctuations cannot be achieved by monetary means alone. We can, however, contribute our share to this achievement, and it is to this purpose that our efforts are dedicated. —JOSEPH A. BRODERICK, member of the Board of Governors of the Federal Reserve System, before Boston Chapter, AMERICAN INSTITUTE OF BANKING.

In Times of Recovery, Prepare

IN spite of the general improvement that has taken place, it would be ignoring facts to state that we have returned to a stable prosperity. The paradox of widespread unemployment in the face of increased production; the existing trade barriers to better international trade; the uneven recuperation within the economic structure; the fact that the Government still finds it necessary to borrow heavily to support its program; the effect of higher taxes imposed during recent years; and the current employer-employee strife, are serious obstacles to full normal recovery. Banking is affected by these factors as well as the immediate problems in connection with the redundancy of funds, excess reserves, the lack of demand for loans, holdings of Government obligations, Government monetary policies and banking competition, to mention only a few. In spite of the general improvement in business conditions we cannot afford to become complacent about our banking situation.

For nearly 150 years we have been experimenting with our monetary and banking system in the hope of evolving a system better to serve the needs of this country. It is far more intricate and complex today than ever before. While few will deny that our banking system, if we may call it a system, has made a great contribution to our economic development, we as bankers cannot treat lightly the fact that it has failed in every major economic crisis. If the solutions to many basic financial problems have not been found before another major depression, we may see our chartered unit banking system entirely eliminated and, in response to the demands of the general public, Government ownership and operation substituted in its place. We may then realize, in retrospect, that the establishment of the guarantee of bank deposits through the operation of the Federal Deposit Insurance Corporation was, unconsciously, only the initial step and was not merely a stop gap. We may also find that the Government's interest in the field of lending through agencies has provided it an experience which will prove to be invaluable for the larger bank task which government may assume, in response to public demand, if unit banking fails again.

As the recovery processes continue, we should not forget

our experience of the last few years and be lulled into complacency. The future may call upon us to make even greater adjustments than we have made in recent years, and if we are to meet the situation, we must approach the problem as vigorously and scientifically as possible. If we are to be prepared to exert our proper influence and leadership, we must first have the facts upon which our views and opinions are based. Rule of thumb methods and prejudice must give way to more orderly and continuous study of our business.

There may be some of our banks well equipped in personnel and other facilities to anticipate future trends and events enabling them to provide for any exigencies. It is not sufficient, however, that only a few banks be in this position. It became evident in 1933 that even these banks were vulnerable when an epidemic of banking trouble once started. The problems of all in such times become the problems of each individual institution. Our 49 different banking systems then become in reality one banking system.

The day has arrived in banking, as it arrived many years ago in industry, when we are greatly in need of more sound research in banking problems—research conducted in the interest of all banks.—RAYMOND N. BALL, President, New York State Bankers Association, and President, Lincoln-Alliance Bank & Trust Company, Rochester, before the Mid-Winter Meeting of the NEW YORK STATE BANKERS ASSOCIATION.

Share-the-Trust-Work

THE trust companies do not appear to have kept pace with other institutions of comparable size and importance in embracing the benefits to be derived from state and local associations. This condition, for the most part, is no doubt due to the very rapid growth of the trust business in a comparatively few years and the consequent lack of sufficient time to perfect the organization of a large number of fiduciary associations. However, substantial progress has been made and there are now many corporate fiduciary associations or sections in the United States.

Those who are familiar with the work being done by one or more corporate fiduciary associations, particularly those which have been functioning for several years, are no doubt convinced that substantial benefits, both present and potential, may be obtained for the trust companies and their customers. If a fiduciary association served no purpose other than to make the trust men of a city or state acquainted with each other, it would be well worth while.

The achievements of the more active associations are numerous, and a reference to some of the things which have been accomplished will serve as a suggestion of what may be done by the newer associations and those yet to be formed.

A subject of paramount interest and even concern to trust companies and their customers is the fees for services, and the working out of a complete minimum fee schedule by an association is of great value to the members and their customers. However, the establishment of a uniform fee schedule is of little value unless that schedule is strictly adhered to by all the members of the association. When such a schedule is established and maintained, the public soon learns that nothing is gained by shopping around among the members with an idea of getting some company to cut fees.

I feel certain that in few, if any, instances can a uniform fee schedule be maintained for any considerable period unless the trust companies are bound together by a strong and active fiduciary association. It is, of course, also necessary to revise parts of the schedule from time to time, and the information which can be made available through the efforts of the association is of much value in the revisions.

Although the use of a uniform minimum fee schedule obviously is desirable from the viewpoint of the trust companies, it has been found equally desirable from the viewpoint of the customers of those institutions. Where uniform fee schedules have been in use, it has been found that the customers and prospective customers of the trust companies in those localities are glad to know that they may choose any one or more of the trust companies which have adopted the uniform fee schedule, knowing that the charges are the same as those made by the other trust companies, but perhaps more important still, that they are paying the same rate as are other customers.

It is unnecessary to emphasize the necessity of being ever alert against unfavorable legislative action. This comment applies particularly to tax matters and the collective experience of the members of a fiduciary association is often of benefit to the committees of the legislature who consider the bills. Many improvements in laws affecting trust business have been brought about through the activity of some of the fiduciary associations.

The relations with the Bar are a constant subject of discussion, and quite a number of associations have been instrumental in formulating a satisfactory working arrangement between the trust companies and the Bar.

In the light of the rapidly increasing volume of trust business, and the increasing cost of administering that business, it is necessary constantly to be on the alert to find new and better ways of handling trust accounts. Therefore, the interchange of ideas on these subjects by the members of an association is very helpful in putting into effect the most efficient administration of trust accounts.

We are all familiar with the increasing burdens being placed upon corporate fiduciaries in the way of more numerous and complicated tax laws, reports, and examinations. It is not possible to pass on all of these additional costs to our customers in the way of increased fees. Therefore, it is particularly important that we should use every means possible to simplify and improve our methods of administration. One of the outstanding characteristics of trust men which I have observed is their readiness to share with other trust men improvements in the handling of trust business which they have devised or learned. Through the better acquaintance with each other which develops from membership in fiduciary associations, the exchange of such information is greatly facilitated.—HAROLD ECKHART, Vice-president, Harris Trust and Savings Bank, Chicago, before the initial meeting of the Trust Division, ILLINOIS BANKERS ASSOCIATION.

Housewife Economists

IN the ordinary family the managing of the home finances determines how much money can be laid aside for savings and for investment which will drive away the wolves of hunger, illness, and dependency in old age. Savings give the feeling of security. In 85 per cent of the homes the housewife manages the finances and in almost every case the money which operates the family machine. She it is who gets the weekly pay envelope or its equivalent and distributes the funds for their various uses. If they are well distributed, looking to food and shelter, mental and moral growth, and a background of savings, security results, and, in consequence, happiness. Budget makers and economists have set up minimum and maximum standards, but the competent housewife knows better and plans better than all of them. The budget makers put marks on paper, but the housewife lives the budget in her heart.

Every day should have against it a credit mark of financial savings so that as the days get fewer, the credits loom larger. If each day's income is consumed in the day, then age finds no credit—life's account is overdrawn. It is easy to say that every day should take care of itself and that we should give no thought to the morrow, but nature doesn't work that way. Man succeeds not by antagonizing nature, not by changing nature, but by recognizing nature's laws. A great part of the work of the world is done in the temperate zone, because the moderate temperature is conducive to both physical and mental activity and the needs of the future are cared for by the management of the present. Thus the value of management as applied to the household finances is of first importance. It constitutes the very cornerstone for the bulwark of the family's happiness so that the members of the family may be well-housed, well-fed, well-groomed and well able to look forward to the future with confidence.

As a boy in school, I was required to memorize Longfellow's poem, "The Village Blacksmith":

"Under a spreading chestnut tree
The village smithy stands;
The smith, a mighty man is he,
With large and sinewy hands;
And the muscles of his brawny arms
Are strong as iron bands."

The village blacksmith is gone. Automotive transportation outmoded his business or else set him on wheels. To Longfellow he represented ideal citizenship in that he worked, he owed no man anything, he attended church, his daughter sang in the choir. In short, he earned his way and participated in the activities of his community. The family which does not manage well its family finances becomes unhappy and in consequence does not fit well into the community life.

When we spend *all* our earnings at the department store, or at the baker's, or at the meat market, or at the jeweler's stand or the sports shop, we are working for them as though we were employed by them; but there is no recompense to us except the material we purchase.

They give value today, but we need more than that—we need assurance. It can be purchased, but we have not the money to purchase it all at once any more than we have the money all at once to purchase all the food we will eat, or the clothes we will wear, or the presents we will give, or the entertainments we will attend, during the rest of our lives. We purchase them week by week. So the wise ones purchase assurance and security. They do not purchase food and clothing and entertainment for today and neglect to purchase security, or wait for security until their "ship comes in." The ships may come in, but only to those who have sent them out.—W. ESPEY ALBIG, Deputy Manager, American Bankers Association, in a radio address.

Making Gold Behave

THERE are those today who feel skeptical of the ability of men to manage and control their very important collective financial affairs with intelligence and restraint. The exigencies of the case seem to point to the fact that no matter how we try to use the gold standard its inadequacies are far more potent than its advantages. According to one eminent authority, there are three tendencies today which make the adoption of a managed monetary system seem far less hazardous than perhaps ever before.

The first is the general growth in popular intelligence about money and credit.

The second is the fact that since the beginning of the present century, and particularly in the post war years, the gold standard itself has become more managed than automatic.

When gold poured into the United States in the early and middle 20's the Federal Reserve System prevented proportionate expansion of credit with its rise of price and subsequent exodus of gold by issuing gold certificates upon which it required 100 per cent gold reserve, instead of 40 per cent needed in the case of Federal Reserve notes. Similarly the upward movement of tariffs since the war has been largely dictated by the heads of nations who have attempted to retain their stocks of gold by decreasing the volume of claims upon them, whereby they might be able to retain their gold standards.

It is easy to deplore such policies as being unwise because of their interference with the practical advantages of widespread world trade, but it is difficult to see much prospect for significant changes in the near future. Our choice is therefore, as a practical matter, not so much between "the automatic" gold standard and a "managed monetary system" as between two types of management, namely that based upon gold and that not based upon it.

A third point is made that if we turn to actual experience, we find it simply is not true that the use of paper money invariably leads to runaway inflation. "As a matter of fact," states Professor Douglass, an eminent authority, "the level of prices in the United States under the gold standard in 1920 was higher in comparison with its pre-war level than it

was under the greenbacks at the conclusion of the Civil War."

A fourth point which may be added here in connection with the tendencies which make the adoption of a "managed monetary system" less hazardous, is the important factor that this management, through exchange stabilization, has been a working principle in Great Britain since 1931 and has been adopted in recent months by the United States and France. This important evidence points to the development of new policies for managed financial and monetary affairs, and there does not appear to be much doubt that, barring unfavorable war-like developments, similar arrangements will be entered into with other nations. So far as the managed money of *individual* nations is concerned, the problem is somewhat different.

It is seriously to be doubted that lack of monetary stability has had any important part in acting as an impediment to business. It is self-evident that the first essential in any sustained recovery must be return of business confidence, but business confidence is based on other factors than monetary stability. Many other political and economic factors are more disturbing to business confidence than are money and banking. Again, money and banking are dependent to a far larger degree for *their* stability upon business confidence.

The one important thought to be borne in mind is that social and economic institutions are constantly in the process of change. It is our failure to realize this and to try and understand the scope and operation of these changes which constitutes the larger impediment to business and economic development. The development of our gold standard has been concomitant with the development which we have identified in economic history as the Industrial Revolution. Our monetary standards of the future must of necessity be identified with and consonant with the social and economic changes which those years will bring.

It seems evident that some alteration from the former type of standard is inevitable and that from the point of view of the immediate future, international standards will be controlled through stabilization funds, and domestic money and credit will be controlled by central banking agencies. —Dean Reid Lage McClung, College of Commerce and Business Administration, University of Southern California, before the Society for Stability in Money and Banking.

What the World Needs

It is obvious that until capital and credit again begin to flow freely from district to district and from country to country any permanent recovery in trade is practically impossible. In these modern days it should be recognized that banking services are not only important, but vital to the lives of the people—vital to the every day life of us all. Were these banking services not available, it would become practically impossible to produce or to distribute even the necessities of life. Therefore, when circumstances tend to injure the banking system and to prevent the creation of credit, the public welfare is seriously imperilled. It was this knowledge that caused the governments of many countries to come to the assistance of the various banking systems in order to avert disaster when the difficulties become so great.

I am convinced that the creation of great amounts of government credit since 1931 has had for one of its objects the prevention of a complete breakdown of credit. It is very much to the good that the governments of all nations have so far succeeded in maintaining trade and in preventing this breakdown. Indeed, in the past year there has been a very general recovery in trade in most parts of the world. Unfortunately, however, the increased trade was due in no small measure to the growth of political danger which caused the nations to spend greatly increased sums on armaments. This process is increasing the rate at which government credit is being exhausted. If it be borne in mind that trade at the present time is as good as it is mainly because of the credit expenditures of governments in all parts of the world including the United States, and that the power of governments to create that credit in many countries is being rapidly exhausted, it will be realized that the trade recovery may be only temporary unless new action is taken.

The importance of reopening without delay the capital and credit markets freely to private borrowing will therefore be obvious, for, if there is little private credit created at the same time that government credit becomes exhausted, a situation of great difficulty would arise. What the situation demands with an urgency that can not be exaggerated is that private enterprise in all directions both at home and abroad should be encouraged. All obstacles to trade, whatever their character may be, should be removed, not at some future day, but immediately.

It is now vitally necessary that every effort should be made to restore the world machine of production and of distribution by opening the world's markets to trade and by re-opening the great international money markets, especially New York and London, to the world's need of capital and credit. Indeed, what the situation demands is that encouragement should be given to private enterprise in all countries so that the nations may resume the normal rate of progress they made in the century up to the War of 1914. In that period world income increased five times over and international trade increased twelve times over.

There is one element in the situation which is effectively closing the door to recovery. That is the spirit of fear which exists in the minds of statesmen and peoples not only as to the policies which neighboring nations are likely to pursue, but as to the policies various classes of their own peoples are likely to adopt. And this mentality of fear, unless it can be effectively dispelled, may make the economic and financial situation infinitely graver by creating political conditions of great danger. Therefore a policy of courage and of confidence is vital to the restoration of all countries. But for this policy to be effective some great nation must become the world's leader and by displaying these great qualities cause other nations also to regain their courage and to regain their confidence. A policy of courage plus a policy of far-sighted self-interest which cannot really be distinguished from a policy of altruism is what is demanded at the present time.

Would it not be a great step forward if we could induce

the two great creditor nations, America and Great Britain, to come together to consider the situation in all its aspects and to put forward those proposals for readjustment which are so urgently demanded at the present time? For it is obvious that a policy of courage and of cooperation and of generosity is urgently necessary in the interests of all nations. By restoring world prosperity America and Great Britain would effectively restore their own prosperity and avoid the dangers which they may otherwise experience.—Sir GEORGE PAISH, former editor of the *Statist*, London, at the annual banquet of New York Chapter, AMERICAN INSTITUTE OF BANKING.

State Bank Rights

UNCERTAINTY attends the future of all chartered banking in these times of rapid change, but more problems, and greater ones, appear to face the state banker as he looks toward another day.

Abolition of state banking systems, and one national system, wholly under Federal control, has been the goal of some economists, some bankers and many politicians for many years. Every financial flurry brings this proposal clearly into the picture as a panacea for our economic ills. We are told that a central authority in Washington can better appraise conditions and formulate rules for the banks of the country than can be done in 48 separate agencies existing within the respective states. We are told that uniform regulations should be adopted for all the banks, and that the proper place for this promulgation and enforcement of rules must be at the seat of the Federal Government; that the purpose of unification is the adoption of identical rules for all banks, governing them in every feature of daily routine.

I do not believe such a program is sound. I have the deepest respect for much good that has come out of Washington. However, state banks may operate in each state under regulations which fit more nearly local requirements than the necessarily narrower regulations of a national system, which must be as rigid as the requirements demanded in the most difficult territory in the nation.

The dual system of banking is more nearly in harmony with American concept and tradition. Bank chartering was not delegated to Congress directly by the Constitution of the United States nor denied by it to the several states. Congressional action in the field of banking was the result of constitutional interpretation by the United States Supreme Court more than 100 years ago. Under the doctrine of states' rights we have duality of administration in many things, and we have state and Federal courts. In fact, millions of dollars are spent annually by the states to carry on functions in which the Federal Government has a more or less important part. Why maintain state legislatures and governors if the whole job can be done better in a single set-up in Washington? If, indeed, we be true unificationists we should abolish all this duplication of effort and operate all things under national direction and control. We recognize, however, as the framers of the Constitution recognized, the propriety and necessity of dual control in many functions of government affecting the welfare of the people.

Enforced Federal Reserve membership is an active issue upon which banks have lost ground in recent Federal legislation. Only a determined fight in the last two Congresses kept a mandatory law for general membership off the statute books. Even then, an insured bank doing a commercial business will be required to join the Federal Reserve system after 1941, provided its average deposits equal $1,000,000 or more. The fight of proponents of compulsory membership will be to lower this exemption limit and gradually include all banks.

State banks should not be forced to join the System, as contemplated by the proponents of unification although, in my opinion, it would greatly strengthen the American banking structure if all banks could join, upon terms that would fully protect them against loss. The System should be made attractive to banks so they will want to join. This can be done.

Clash of supervisions holds a real danger for the state bank in the future. State member banks, insured under the F.D.I.C., have three sets of regulations under which to operate, namely, state banking department, Federal Reserve Board and Federal Deposit Insurance Corporation. It will be necessary for much to be done in the way of coordination if serious clashing is to be avoided as all essay the task of "bossing" the same bank.

In all frankness, it should be said that probably the most important factor in the supervisory field, affecting state banking departments, is the F.D.I.C. Its far-reaching powers constitute the greatest threat, in my opinion, against the continuance of state banking departments.

Whether it be for better or worse, it is a fact that the F.D.I.C. has the last word in chartering banks by granting or withholding insurance and, under existing powers, can take the lead in mergers and liquidations. Of course, no one can blame the Corporation for looking after its risks but, by the very nature of the case, important initiative has been taken away from state banking departments. In the future the F.D.I.C. may, possibly, become the dominating factor in the whole banking picture—overshadowing even the Federal Reserve System. Then the state banker may well inquire, "What price insurance?"

Government competition continues to be a shadow of no small proportions. State banks being located largely in agricultural areas have felt, and will continue to feel Government competition most keenly.

As state bankers face the future the question which naturally arises is: How shall we meet the situation which threatens our existence? I should like to suggest a six-point program covering some of the matters which profitably could be considered.

1. We should put our banking house in order. We should invest the utmost of time, talent and effort in good management and place our business on the highest plane possible and render a service second to no other business.

2. We should eliminate Government competition not only by securing remedial administrative and legislative action, which is important, but by rendering the best sort of service

at less cost to the public in the long run. If we can cut the volume of these loans which the Government is making to farmers for crop production, we shall discourage this competition in a most effective way.

3. Take politics out of state banking departments. This involves vigorous work in some of the states. The superintendent of banks should not only be a man of tested banking experience, but he should be appointed for a long term—say, 10 years—and not be removable except for definite cause. He should have associated with him, at least in an advisory capacity, a banking board of possibly five men.

4. A uniform code regulating banks in a general way should be adopted in all the states somewhat like the Negotiable Instruments Law covering commercial paper transactions. Such matters as minimum capital requirements, ratio of capital structure to total deposits, etc., could properly be covered by this code; in this way we could have uniformity without unification.

5. We should make every effort to place all state banks upon a profitable basis and keep them there.

6. State bankers must educate their public as to the truth in the banking situation and see that the facts are presented to our lawmakers, state and national, in the most effective way.—WILLIAM S. ELLIOTT, Vice-president, Bank of Canton, Canton, Georgia, before the Annual Regional Conferences of the ILLINOIS BANKERS ASSOCIATION.

The Trust Fee Problem Is National

THE plan of basing trust fees upon corpus and charging them in whole or in part to corpus is by no means visionary; it is highly practical and successful and has been seasoned and tested by experience in the face of competition with other and lower schedules differently based, and under most trying economic conditions. So far it has proved to be the best answer to the perplexing problem of an adequate base and rate for trustees' fees. American trust institutions are quite aware of the inadequacy of their present schedules of annual fees based wholly upon income. They have been tested and found deficient. The situation can be remedied and we can ill afford to postpone the correction much longer.

Trust men in institutions which are members of the Federal Reserve System are familiar with the expanding scope of the examinations of trust departments now being made by the Comptroller of the Currency. No longer is that public official satisfied with a mere balance sheet and the checking of trust securities in vaults. He is becoming interested in potential liabilities, investment and administrative machinery and policies, accounting systems, public relations and even management.

The subject matter of Regulation "F" recently issued by the Board of Governors of the Federal Reserve System is a fair warning of the concern which the supervising authorities are taking in the organization, management and policies of our trust departments. Should we fail to put, promptly and intelligently, our fee schedules on a more businesslike and productive basis, we can reasonably expect that the Board of Governors of the Federal Reserve System may in due course prescribe what it considers a sound base and adequate rate for fees, applicable to all members of the Federal Reserve System, which will, in the opinion of the Board, insure sufficient earnings to those institutions which render trust service to enable them to meet the inherent and increasing risks of the business, furnish the standard and scope of trust service which the board may prescribe, and finally yield a reasonable profit to the institution itself.

There is impressive precedent for such possible action. This same Board, under its Amended Regulation Q, prohibited the further payment by member banks of interest on demand deposits and also fixed a maximum of 2½ per cent on savings deposits, thus bringing order out of chaos in the matter of interest paid to bank depositors, at a time when the very solvency of the members depended upon increasing their earnings.

What a simple process this was to accomplish such a major benefit to our banks! Might not similar action by the Federal Reserve Board, wisely exercised, provide the ideal method for a nationwide solution of our chaotic fee problem, at least for all future business? There may be food for thought in this possibility. We ourselves initiated the "Statement of Principles of Trust Institutions," which subsequently became imbedded in Federal regulations governing us. Can we not take a similar leadership in recommending to our membership sound and adequate schedules of fees which might later receive official endorsement by the Federal Reserve Board?—L. H. ROSEBERRY, Vice-president and Trust Department Manager, Security-First National Bank of Los Angeles, before the Mid-Winter Trust Conference, AMERICAN BANKERS ASSOCIATION.

Uneasy Money Rates

THE low money rates we have at the present time result from artificial conditions. Cheap money has resulted from the lack of demand caused by business depression, currency and credit inflation, concentration of gold largely in the United States and the general fear on the part of the investor.

Artificial conditions change much more rapidly than normal ones and therefore we may look for a rapid change in the money rates which have been brought on by these conditions. As a matter of fact we can expect very much higher money rates and if history repeats itself the change will be fast and furious.

At the present time the causes for cheap money are beginning to turn and the forces making for higher price money are asserting themselves. Prices are beginning to rise sharply. —IVAN WRIGHT, Professor of Economics, University of Illinois, before the North Central Conference of the UNITED STATES BUILDING AND LOAN LEAGUE.

A Difficult Balancing Act

IF budgets are to be balanced by higher taxes eventually, it is apparent from recent history that when the tax burden reaches a certain per cent of the annual national income—say 20 per cent or over—the demand arises for a devaluation of the currency in the country in question.

It is estimated that our present tax burden is about $10,000,000,000, or about 18 per cent of national income, and that it may reach $12,000,000,000 to $15,000,000,000 per annum within the next 10 years, without the Social Security taxes. If these are included, and the present law is not modified, the tax burden may reach 19 to 20 billions within 10 or 12 years. Unless national income is raised to 90 or 100 billions in the same period, it is quite probable we may face a growing demand for further devaluation of our currency, assuming, of course, that the President does not use his power to devalue further in the next two and a half years.

A number of factors have to be considered in monetary policy, especially when the money of a country is, in any sense, on a managed currency basis. The Bank of England traditionally managed monetary policy before the War, particularly gold movements by changes in the discount rate. Later open market operations were added. We have recently given to our Federal Reserve authorities two other agencies of control—power to change reserve requirements for member banks, within certain limits, and to set margin requirements for stock exchange dealing and security loans. To the President and the Treasury we have also given the power—now extended for 2½ years—to change the price of gold, i.e., the gold content of the dollar.

Some in high authority at the present time have advocated two other measures which they consider essential to more complete control of money and credit: one, the abolition of gold or gold certificate reserves for bank notes and deposits in central banks, making the notes assets' issues, secured by a first lien upon the total assets of the issuing bank; and second, the direct control by the central banking authorities of the export of capital, or all flotations of foreign security issues, i.e., all outward and inward capital movements.

We are told that in all likelihood the Government through its various agencies and powers will not let "Governments" drop below par, at least until its 1940 refunding financing is out of the way. This is entirely possible, for, through the operation of the stabilization fund, the F.D.I.C., the R.F.C., the new "borrowing powers" of the Treasury to sterilize gold, the demand for securities for the Social Security reserves, we may soon witness the phenomenon of the Government being out of the money market as a borrower, and yet running deficits from year to year, but financing itself through the use of Social Security reserves and its "baby bond" sales.—FREDERIC EDWARD LEE, Professor of Economics, University of Illinois, before the annual regional conferences of the ILLINOIS BANKERS ASSOCIATION.

Pampered Pet or Step-Child?

OUR business is one in which we cannot average results. It does not help much when Mr. X calls to complain because certain of the investments in his trust have greatly depreciated in value or have become non-income producers to say, "Yes, Mr. X, but let me tell you what a wonderful job we have done for Mrs. Jones." From the very nature of our business we must suffer more from our mistakes of judgment in a relatively few number of cases than we gain in esteem and public good will from the successful administration of a much larger number of cases.

When I entered the trust business and down into rather recent years, a trust officer was in some respects a pampered pet of his institution. Unless we can successfully combat this question of good public relations, we are likely to become undesired step-children.

It is my personal belief that the trust business of this country will not grow and will not progress as it has every right to do until there is some authoritative record of management results. The insurance manuals give us every opportunity of comparing the management results achieved by insurance companies throughout the country.

Whether or not this can ever be true of individual trust institutions in their management of estates and trusts, it certainly should be true in the not too far distant future of the trust business as a whole. I have nothing in common with the trust man—whether he hails from a small town or whether he be the president of a great Wall Street institution—who wants to hush-hush and throw a veil of secrecy and mystery about the trust business and its accomplishments, or even its lack of accomplishments. I believe in information—all the information that it is possible to give.—GWILYM A. PRICE, Vice-president and Trust Officer, Peoples-Pittsburgh Trust Company, Pittsburgh, before the Mid-Winter Trust Conference, AMERICAN BANKERS ASSOCIATION.

Piling Ossa on Pelion

MUCH has appeared in banking publications and in the newspapers advocating a unification of banking. Recent changes in the supervising structures, particularly in the Federal Government, have caused some complaint from the banks themselves that they are subject to too many governmental inquisitorial agencies.

A state bank, for instance, must submit to its state examination and an F.D.I.C. examination; a state bank which is a member of the Federal Reserve System, in addition to these two, is also subjected to the supervision of the Federal Reserve Board. A national bank is subject, in some measure, to supervision by the Comptroller of the Currency, the Federal Reserve Board and the F.D.I.C. and it is being advocated that the simplification of this supervision is desirable.

Just what this agitation will result in is hard to predict.—M. A. GRAETTINGER, Executive Vice-president, Illinois Bankers Association, before the Annual Regional Conferences.

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